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HOUSE OF REPRESENTATIVES
REPORT
101-136

CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989

JULY 12, 1989.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany H.R. 1233]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 1233) to improve the operation of the Caribbean Basin Economic Recovery Act, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Caribbean Basin Economic Recovery Expansion Act of 1989".

SEC. 2. CONGRESSIONAL FINDINGS.

The Congress finds that—

(1) a stable political and economic climate in the Caribbean region is necessary for the development of the countries in that region and for the security and economic interests of the United States;

(2) the Caribbean Basin Economic Recovery Act was enacted in 1983 to assist in the achievement of such a climate by stimulating the development of the export potential of the region; and

(3) the commitment of the United States to the successful development of the region, as evidenced by the enactment of the Caribbean Basin Economic Recovery Act, should be reaffirmed, and further strengthened, by amending that Act to improve its operation.

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TITLE I—AMENDMENTS TO THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT AND RELATED PROVISIONS

Subtitle A—Amendments to Caribbean Basin Economic Recovery Act

SEC. 101. REPEAL OF TERMINATION DATE ON DUTY-FREE TREATMENT UNDER THE ACT.

Section 218 of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2706(b)) is repealed.

SEC. 102. EXCEPTIONS TO GENERAL DUTY-FREE TREATMENT.

(a) EXCEPTIONS.—The Caribbean Basin Economic Recovery Act is amended by inserting after section 213 the following new section:

"SEC. 213A. ARTICLES ELIGIBLE FOR LIMITED DUTY-FREE TREATMENT OR DUTY REDUCTION.

"(a) TEXTILE PRODUCTS SUBJECT TO GUARANTEED ACCESS LEVELS.—

"(1) DEFINITIONS.—As used in this subsection—

"(A) The term 'qualifying fabric' means—

"(i) fabric that is formed and cut in the United States; and

"(ii) foreign fabric that is cut in the United States.

"(B) The term 'foreign fabric' means the following articles provided for under the headings or subheadings (as appropriate) of the HTS specified parenthetically:

"(i) Broadwoven fabrics containing 85 percent or more by weight of silk, weighing more than 100 grams per square meter (5007.10.30, 5007.20.00 and 5007.90.30).

"(ii) Velveteen fabric, 85 percent or more by weight of cotton (5801.23.00).

"(iii) Corduroy fabric, 85 percent or more by weight of cotton, containing more than 7.5 wales per centimeter (5801.22.00).

"(iv) Broadwoven fabrics of cotton of average yarn number greater than 135 metric count (5208.21.60, 5208.22.80, 5208.29.80, 5208.31.80, 5208,32.50, 5208.39.80, 5208.41.80, 5208.42.50, 5208.49.80, 5208.51.80, 5208.52.50 and 5208.59.80).

"(v) Circular knit fabrics of cotton of average yarn number greater than 100 metric count (6002.92.00).

"(vi) Broadwoven fabric, 85 percent or more by weight of wool, certified as being genuine Harris Tweed (5111.19.20 and 5111.19.60).

"(vii) Broadwoven fabric 85 percent or more by weight of continuous synthetic yarn of polyester, weighing not more than 100 grams per square meter, containing more than 145 threads per square centimeter (5407.71.00, 5407.72.00, 5407.73.20, and 5407.74.00).

"(viii) Broadwoven fabric of combed wool or fine combed animal hair, of wool and not less than 20 percent combed fine animal hair, mixed mainly or solely with man-made fibers, weighing not more than 340 grams per square meter (5112.30.00).

"(2) GUARANTEED MARKET ACCESS AND DUTY-FREE TREATMENT FOR CERTAIN TEXTILE PRODUCTS.—

"(A) The United States Trade Representative—

"(i) shall establish with each beneficiary country guaranteed access levels for textile products assembled in that country from qualifying fabrics; and

"(ii) is authorized to negotiate and conclude a bilateral agreement with each such country regarding the guaranteed access levels established under clause (i).

"(B) Textile products entered pursuant to a bilateral agreement provided for under subparagraph (A) shall be accorded duty-free treatment.

"(3) PERMISSIBLE FOREIGN CONTENT.—A textile product that is assembled in a beneficiary country from qualifying fabric and incorporates findings and trimmings of foreign origin is eligible for guaranteed access and duty-free treatment under an agreement entered into under paragraph (2)(A) if such foreign findings and trimmings do not exceed 25 percent of the cost of the components of the assembled product.

"(4) REQUIREMENTS AND PROCEDURES.—The Committee for Implementation of Textile Agreements established under Executive Order No. 11651, dated March 3, 1972, shall establish such requirements and procedures as may be necessary or appropriate to implement the obligations of the United States under agreements entered into under paragraph (2)(A).

"(5) EXISTING AGREEMENTS.—Any bilateral agreement that—

"(A) was entered into between the United States and a beneficiary country under the Special Access Program, announced on February 20, 1986, for textile products under the aegis of the Caribbean Basin Initiative; and

"(B) is in effect on the date of the enactment of this section;

shall be treated as being a valid agreement that was entered into under paragraph (2)(A).

"(6) SENSE OF CONGRESS.—It is the sense of Congress that—

"(A) the benefits granted through the establishment of guaranteed access levels in bilateral textile agreements should not result in any disadvantage to United States firms that seek export certificates or export visas which authorize shipments under specific limits; and

"(B) the United States Trade Representative should obtain assurances from beneficiary countries which have been granted guaranteed access levels that such countries will administer export certificates or export visas in such a manner as to ensure fairness and nondiscriminatory treatment to United States firms that seek allocations under specific limits rather than guaranteed access levels.

"(b) TEXTILE AND APPAREL ARTICLES SUBJECT TO SPECIFIC LIMITS AND DESIGNATED CONSULTATION LEVELS.—

"(1) DEFINITIONS.—As used in this subsection—

"(A) The term 'quota article' means any textile or apparel article that may be imported into the United States under either a specific limit or a designated consultation level established in a bilateral textile agreement between the United States and a beneficiary country that is in force and effect on, or enters into force and effect after, the date of the enactment of this section.

"(B) The term 'textile category' means any category established in the publication entitled 'Correlation: Textile and Apparel Categories with the Harmonized Tariff Schedule of the United States Annotated, 1989', prepared by the Department of Commerce.

"(C) The term 'trade-weighted average duty rate' means the rate of duty determined by the Secretary under paragraph (3).

"(2) DUTY ON QUOTA ARTICLES.—

"(A) Except as provided in subparagraph (B), each quota article that is entered shall be dutiable at a rate equal to 50 percent of the trade-weighted average duty rate for the textile category under which the quota article is classified.

"(B) The rate of duty provided for under subparagraph (A) for any article that is a quota article shall not apply if that rate is higher than the rate of duty provided for that article in general column 1 of the HTS.

"(3) TRADE-WEIGHTED AVERAGE DUTY RATE DETERMINATIONS.—For each textile category under which one or more kinds of quota articles are classified, the Secretary shall determine the trade-weighted average of the general column 1 rates of duty under the HTS for all classes or kinds of goods included within that category. The Secretary shall calculate the trade-weighted average duty rate under this paragraph for each textile category on the basis of the best information available for the most recent 12-month period occurring before the date of the enactment of this section.

"(c) FOOTWEAR AND LEATHER-RELATED PRODUCTS.—The rate of duty on any footwear (other than leather footwear), handbag, luggage, flat good, work glove, or leather wearing apparel that—

"(1) is a product of a beneficiary country; and

"(2) was not designated on August 5, 1983, as an eligible article for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

is a rate equal to 50 percent of the general column 1 rate of duty under the HTS that would apply to such article but for this subsection.

"(d) ADMINISTRATION.—

"(1) PROCLAIMING OF RATES.—The President shall proclaim the rates of duty imposed under subsection (b)(2)(A) and subsection (c).

"(2) CONSTRUCTION.—The duty applied under subsection (b)(2)(A) or subsection (c) to an article is in lieu of the duty provided for that article under general column 1 of the HTS.

"(3) DEFINITION OF SECRETARY.—For purposes of this section, the term 'Secretary' means the Secretary of Commerce.".

(b) CONFORMING AMENDMENT.—Section 213(b) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(b)) is amended to read as follows:

"(b) The duty-free treatment provided under this subtitle does not apply to—

"(1) textile and apparel articles which are subject to textile agreements, except to the extent provided for in section 213A(a);

"(2) articles to which reduced duties apply under section 213A(b) and (c);

"(3) leather footwear not designated on August 5, 1983, as eligible articles for purposes of the generalized system of preferences under title V of the Trade Act of 1974;

"(4) tuna, prepared or preserved in any manner, in airtight containers;

"(5) petroleum, or any product derived from petroleum, provided for in headings 2709 and 2710 of the HTS; and

"(6) watches and watch parts (including cases, bracelets, and straps), of whatever type including, but not limited to, mechanical, quartz digital or quarts analog, if such watches or watch parts contain any material which is the product of any country with respect to which column 2 rates of duty under the HTS apply.".

(c) EFFECTIVE DATE.—Section 213A(b) of the Caribbean Basin Economic Recovery Act (as added by subsection (a) of this section) applies with respect to goods entered, or withdrawn from warehouse for consumption, on or after the 30th day after the date of the enactment of this Act.

SEC. 103. WORKER RIGHTS.

Section 212 of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702) is amended—

(1) by striking out "and" after the semicolon at the end of subsection (b)(5);

(2) by striking out the period at the end of subsection (b)(6) and inserting "; and";

(3) by adding at the end of subsection (b) the following new paragraph:

"(7) if such country has not or is not taking steps to afford internationally recognized worker rights (as defined in section 502(a)(4) of the Trade Act of 1974) to workers in the country (including any designated zone in that country).";

(4) by amending the last sentence in subsection (b) by striking out "and (5)" and inserting "(5), and (7)";

(5) by amending subsection (c)(8) to read as follows:

"(8) whether or not such country has taken or is taking steps to afford to workers in that country (including any designated zone in that country) internationally recognized worker rights."; and

(6) by adding the following new subparagraph at the end of subsection (e):

"(3) Not later than January 4, 1991 and biennially thereafter, the President shall conduct a general review of eligible countries based on the considerations described in subsections (b) and (c).".

SEC. 104. REPORTS.

Section 212 of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702) is amended by adding at the end thereof the following new subsection:

"(f) On or before October 1, 1992, and the close of each 3-year period thereafter, the President shall submit to the Congress a complete report regarding the operation of this title.".

SEC. 105. APPLICATION OF ACT IN EASTERN CARIBBEAN AREA.

It is the sense of the Congress that there should be undertaken special efforts in order to improve the ability of the Organization of Eastern Caribbean States countries and Belize to benefit from the Caribbean Basin Economic Recovery Act.

Subtitle B—Amendments to the Harmonized Tariff Schedule and Other Provisions Affecting CBI Beneficiary Countries

SEC. 111. SUGAR IMPORTS FROM BENEFICIARY COUNTRIES.

(a) ALLOCATIONS TO BENEFICIARY COUNTRIES.—Paragraph (c) of additional U.S. note 3 of chapter 17 of the Harmonized Tariff Schedule of the United States is amended—

(1) by inserting after note 2 of subparagraph (i) the following:

"NOTE 3: The Secretary shall determine whether any country is not utilizing fully the base quota amount allocated to it for a quota year and any amount determined to be unused during such year shall be reallocated on a pro rata basis among the countries listed in general note 3(c)(v) (hereinafter in this paragraph referred to as the 'CBI countries') receiving base quota allocations for such year. The unused quota amount reallocated to any CBI country under this note for any quota year is in addition to any reallocation made under subparagraph (iv) to that country for such year. No portion of any reallocation made to a CBI country for a quota year under this note or subparagraph (iv) that is unused at the close of such year is available for use in any other quota year.";

(2) by amending subparagraph (iii) to read as follows:

"(iii) Notwithstanding any authority given to the United States Trade Representative under paragraphs (e) and (g) of this note, in allocating any limitation imposed under any paragraph of this note on the quantity of sugars, syrups, and molasses described in the subheadings cited under paragraph (a) of this note which may be entered—

"(A) the percentage allocation made to the Philippines under this paragraph may not be reduced,

"(B) no allocation may be made to the Republic of South Africa, and

"(C) the aggregate of the amounts of the base quota allocations to the CBI countries for any quota year beginning after December 31, 1988, may not be less than 371,449 metric tons, raw value.";

and

(3) by adding at the end thereof the following new subparagraphs:

"(iv) If under law authorizing such an action for purposes of dealing with a threat to the national security or foreign policy of the United States, the allocation under subparagraph (i) for any quota year is suspended or terminated with respect to any country, the amount of the suspended or terminated allocation shall be reallocated on a pro-rata basis among the CBI countries receiving allocations for that year. Any quota amount reallocated to any CBI country under this subparagraph for any quota year is in addition to any reallocation made under note 3 of subparagraph (i) to that country for such year.

"(v) The President may enter into trade agreements with foreign governments for purposes of granting appropriate compensation, and may proclaim such compensation, if any action taken by the United States under the authority of note 3 of subparagraph (i), subparagraph (iii)(C), or subparagraph (iv) is found to be inconsistent with the international obligations of the United States (including the General Agreement on Tariffs and Trade). Before offering compensation under this subparagraph, the President shall consult with the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate regarding the reasons for taking the action concerned and the compensation proposed to be offered.".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) apply with respect to the quota year in effect on the date of the enactment of this Act and to quota years thereafter.

SEC. 112. INCREASE IN DUTY-FREE TOURIST ALLOWANCES.

(a) DUTY-FREE ALLOWANCE FOR RETURNING RESIDENTS.—Subchapter IV of chapter 98 of the Harmonized Tariff Schedule of the United States is amended—

(1) by inserting the following new note at the end of the notes to such subchapter:

"4. As used in subheadings 9804.00.70 and 9804.00.72, the term 'beneficiary country' means a country listed in general note 3(c)(v)(A).";

(2) by striking out "subheading 9804.00.65 or 9804.00.70" and all that follows thereafter in the superior article description to subheadings 9804.00.65 and 9804.00.70 and inserting "subheadings 9804.00.65, 9804.00.70, and 9804.00.72

within 30 days preceding his arrival, and claims exemption under only one of such items on his arrival.";

(3) by striking out "$800" in subheading 9804.00.70 and inserting "$1,200";

(4) by inserting "or up to $600 of which have been acquired in one or more beneficiary countries" before the parenthetical matter in subheading 9804.00.70; and

(5) by inserting after subheading 9804.00.70 the following new subheading with the article description for the new subheading having the same degree of indentation as subheading 9804.00.70:

"9804.00.72	Articles whether or not accompanying a person, not over $600 in aggregate fair market value in the country of acquisition, including— (a) but only in the case of an individual who has attained the age of 21, not more than 1 liter of alcoholic beverages or not more than 2 liters if at least one liter is the product of one or more beneficiary countries, and (b) not more than 200 cigarettes, and not more than 100 cigars, if such person arrives directly from a beneficiary country, not more than $400 of which shall have been acquired elsewhere than in beneficiary countries (but this item does not permit the entry of articles not accompanying a person which were acquired elsewhere than in beneficiary countries)	Free	Free".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) apply with respect to residents of the United States who depart from the United States on or after the 15th day after the date of the enactment of this Act.

SEC. 113. DUTY-FREE TREATMENT FOR ARTICLES ASSEMBLED IN BENEFICIARY COUNTRIES FROM COMPONENTS PRODUCED IN THE UNITED STATES.

(a) IN GENERAL.—U.S. Note 2 of subchapter II of chapter 98 of the Harmonized Tariff Schedule of the United States is amended—

(1) by striking out "2. Any" and inserting "2. (a) Except as provided in paragraph (b), any"; and

(2) by adding at the end thereof the following new paragraph:

"(b) No article (except a textile or apparel article) may be treated for purposes of this Act as a foreign article, or as subject to duty, if—

"(i) the article is—

"(A) assembled in whole of fabricated components that are a product of the United States, or

"(B) processed in whole of ingredients (other than water) that are a product of the United States,

in a beneficiary country; and

"(ii) neither the fabricated components or ingredients, after exportation from the United States, nor the article itself, before importation into the United States, enters the commerce of any foreign country other than a beneficiary country.

As used in this paragraph, the term 'beneficiary country' means a country listed in general note 3(c)(V)(A).".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) applies with respect to goods assembled or processed abroad that are entered on or after the 15th day after the date of the enactment of this Act.

SEC. 114. RULES OF ORIGIN FOR BENEFICIARY COUNTRY PRODUCTS.

(a) IN GENERAL.—For purposes of administering the Caribbean Basin Economic Recovery Act and subject to subsection (b), the President may proclaim new rules, to take effect on January 1, 1991, for determining whether articles originate in beneficiary countries.

(b) CONSULTATION AND LAY-OVER REQUIREMENTS.—Rules of origin may not be proclaimed under subsection (a) unless—

(1) the President has obtained advice regarding the proposed rules pursuant to consultation with—

(A) the appropriate advisory committees established under section 135 of the Trade Act of 1974,

(B) the governments of the beneficiary countries,

(C) the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate, and

(D) other interested parties;

(2) the President has submitted a report to such Committees that sets forth the rules proposed to be proclaimed and the reasons therefor,

(3) a period of at least 90 calendar days that begins on the first day on which the President has met the requirements of paragraphs (1) and (2) with respect to such action has expired; and

(4) the President has further consulted with such Committees regarding the proposed action during the period referred to in paragraph (3).

SEC. 115. CUMULATION INVOLVING BENEFICIARY COUNTRY PRODUCTS UNDER THE COUNTERVAILING AND ANTIDUMPING DUTY LAWS.

(a) MATERIAL INJURY.—Section 771(7)(C)(iv) of the Tariff Act of 1930 (19 U.S.C. 1677(7)(c)(iv)) is amended to read as follows:

"(iv) CUMULATION.—

"(I) IN GENERAL.—For purposes of clauses (i) and (ii) and subject to subclause (II), the Commission shall cumulatively assess the volume and effect of imports from two or more countries of like products subject to investigation if such imports compete with each other and with like products of the domestic industry in the United States market.

"(II) CBI EXCEPTION.—When the imports subject to investigation are products of a country designated as a beneficiary country under the Caribbean Basin Economic Recovery Act (19 U.S.C. 2701 et seq.), the volume and effect of imports from such country may only be cumulatively assessed with imports of like products from one or more other countries designated as beneficiary countries.".

(b) THREAT OF MATERIAL INJURY.—Section 771(7)(F)(iv) of the Tariff Act of 1930 (19 U.S.C. 1677(7)(F)(iv)) is amended by striking out "(C)(v)," and inserting "(C)(iv)(II) and (v),".

(c) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) apply with respect to investigations initiated under section 702 or 732 of the Tariff Act of 1930 on or after the date of the enactment of this Act.

SEC. 116. ETHYL ALCOHOL AND MIXTURES THEREOF FOR FUEL USE.

(a) DETERMINATION OF INDIGENOUS PRODUCTS.—Section 423(c) of the Tax Reform Act of 1986 (19 U.S.C. 2703 note) is amended—

(1) by redesignating paragraphs (3), (4), and (5) as paragraphs (4), (5), and (6), respectively; and

(2) by striking out paragraph (2) and inserting the following:

"(2) Ethyl alcohol or a mixture thereof that is produced by a process of full fermentation in an insular possession or beneficiary country shall be treated as being an indigenous product of that possession or country.

"(3)(A) Ethyl alcohol and mixtures thereof that are only dehydrated within an insular possession or beneficiary country (hereinafter in this paragraph referred to as 'dehydrated alcohol and mixtures') shall be treated as being indigenous products of that possession or country only if the alcohol or mixture, when entered, meets the applicable local feedstock requirement.

"(B) The local feedstock requirement with respect to any calendar year is—

"(i) 0 percent with respect to the base quantity of dehydrated alcohol and mixtures that is entered;

"(ii) 30 percent with respect to the 35,000,000 gallons of dehydrated alcohol and mixtures next entered after the base quantity; and

"(iii) 50 percent with respect to all dehydrated alcohol and mixtures entered after the amount specified in clause (ii) is entered.

"(C) For purposes of this paragraph:

"(i) The term 'base quantity' means, with respect to dehydrated alcohol and mixtures entered during any calendar year, the greater of—

"(I) 60,000,000 gallons; or

"(II) an amount (expressed in gallons) equal to 7 percent of the United States domestic market for ethyl alcohol, as determined by the United States International Trade Commission, during the 12-month period ending on the preceding September 30;

that is first entered during that calendar year.

"(ii) The term 'local feedstock' means hydrous ethyl alcohol which is wholly produced or manufactured in any insular possession or beneficiary country.

"(iii) The term 'local feedstock requirement' means the minimum percent, by volume, of local feedstock that must be included in dehydrated alcohol and mixtures.".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) apply with respect to calendar years after 1989.

SEC. 117. CONFORMING AMENDMENT.

Section 503(b) of the Trade Act of 1974 (19 U.S.C. 2463(b)) is amended to read as follows:

"(b)(1) The duty free treatment provided under section 501 shall apply to any eligible article which is the growth, product, or manufacture of a beneficiary developing country if—

"(A) that article is imported directly from a beneficiary developing country into the customs territory of the United States; and

"(B) the sum of (i) the cost or value of the materials produced in the beneficiary developing country or any 2 or more countries which are members of the same association of countries which is treated as one country under section 502(a)(3), plus (ii) the direct costs of processing operations performed in such beneficiary developing country or such member countries is not less than 35 percent of the appraised value of such article at the time of its entry into the customs territory of the United States.

"(2) The Secretary of the Treasury, after consulting with the United States Trade Representative, shall prescribe such regulations as may be necessary to carry out this subsection, including, but not limited to, regulations providing that, in order to be eligible for duty-free treatment under this title, an article must be wholly the growth, product, or manufacture of a beneficiary developing country, or must be a new or different article of commerce which has been grown, produced, or manufactured in the beneficiary developing country; but no article or material of a beneficiary developing country shall be eligible for such treatment by virtue of having merely undergone—

"(A) simple combining or packaging operations, or

"(B) mere dilution with water or mere dilution with another substance that does not materially alter the characteristics of the article.".

TITLE II—SCHOLARSHIP ASSISTANCE AND TOURISM PROMOTION

SEC. 201. CARIBBEAN-CENTRAL AMERICAN SCHOLARSHIP PARTNERSHIP.

(a) ESTABLISHMENT OF SCHOLARSHIP PROGRAM.—The Administrator of the Agency for International Development shall establish and administer a program of scholarship assistance, in cooperation with State governments, universities, community colleges, and businesses, to provide scholarships to enable students from eligible countries in the Caribbean and Central America to study in the United States.

(b) GRANTS TO STATES.—In carrying out this section, the Administrator may make grants to States to provide scholarship assistance for undergraduate degree programs and for training programs of one year or longer in study areas related to the critical development needs of the students' respective countries.

(c) CONSULTATION WITH STATES.—The Administrator shall consult with the participating States with regard to the educational opportunities available within each State and on the assignment of scholarship recipients.

(d) FEDERAL SHARE.—The Federal share for each year for which a State receives payments under this section shall be not less than 50 percent.

(e) NON-FEDERAL SHARE.—The non-Federal share of payments under this section may be in cash, including the waiver of tuition or the offering of in-State tuition or housing waivers or subsidies, or in-kind fairly evaluated, including the provision of books or supplies.

(f) FORGIVENESS OF SCHOLARSHIP ASSISTANCE.—The obligation of any recipient to reimburse any entity for any or all scholarship assistance provided under this section shall be forgiven upon the recipient's prompt return to his or her country of domicile for a period which is at least one year longer than the period spent studying in the United States with scholarship assistance.

(g) PRIVATE SECTOR PARTICIPATION.—To the maximum extent practicable, each participating State shall enlist the assistance of the private sector to enable the State to meet the non-Federal share of payments under this section. Wherever appropriate, each participating State shall encourage the private sector to offer internships or other opportunities consistent with the purposes of this section to students receiving scholarships under this section.

(h) FUNDING.—Any funds used in carrying out this section shall be derived from funds allocated for Latin American and Caribbean regional programs under chapter 4 of part II of the Foreign Assistance Act of 1961 (22 U.S.C. 2346 and following; relating to the economic support fund).

(i) DEFINITIONS.—As used in this section—

(1) The term "eligible country" means any country—

(A) which is receiving assistance under chapter 1 of part I of the Foreign Assistance Act of 1961 (22 U.S.C. 2151 and following; relating to development assistance) or chapter 4 of part II of that Act (22 U.S.C. 2346 and following; relating to the economic support fund); and

(B) which is designated by the President as a beneficiary country pursuant to the Caribbean Basin Economic Recovery Act.

(2) The term "State" means each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, the Trust Territory of the Pacific Islands, and the Commonwealth of the Northern Mariana Islands.

SEC. 202. PROMOTION OF TOURISM.

(a) CONGRESSIONAL FINDING.—The Congress finds that the tourism industry must be recognized as a central element in the economic development and political stability of the Caribbean Basin region because of the potential that the industry has for increasing employment and foreign exchange earnings, establishing important linkages with other related sectors, and having a positive complementary effect on trade with the United States.

(b) FEDERAL AGENCY PRIORITY.—It is the sense of the Congress that increased tourism and related activities should be developed in the Caribbean Basin region as a central part of the Caribbean Basin Initiative program and, to that end, the appropriate agencies of the United States Government should assign a high priority to projects that promote the tourism industry in the Caribbean Basin.

(c) STUDY.—The Secretary of Commerce shall complete the study begun in 1986 regarding tourism development strategies for the Caribbean Basin region. The study shall include—

(1) information on the mutual benefits received by the United States and the Caribbean Basin economies as a result of tourist activity in the area; and

(2) proposals for developing increased linkages between the tourism industry and local industries in the region such as the agro-business.

SEC. 203. PILOT PRECLEARANCE PROGRAM.

(a) ESTABLISHMENT OF PROGRAM.—Subject to subsection (b), the Commissioner of Customs shall carry out, during fiscal years 1990 and 1991, preclearance operations at a facility of the United States Customs Service in a country within the Caribbean Basin which the Commissioner of Customs considers appropriate for testing the extent to which the availability of preclearance operations can assist in the development of tourism.

(b) RESTRICTIONS REGARDING PROGRAM.—

(1) The Commissioner of Customs may not consider a country within the Caribbean Basin to be appropriate for the testing referred to in subsection (a)—

(A) if preclearance operations are currently carried out by the United States Customs Service in that country; or

(B) unless immigration preinspection operations are currently carried out in that country with respect to individuals traveling to the United States.

(2) Preclearance operations may not be commenced in the country selected for testing under subsection (a) unless the Commissioner of Customs and the Commissioner of Immigration and Naturalization jointly certify that—

(A) there exists a bilateral agreement between the United States Government and the government of such country which protects the interests of the United States and affords diplomatic protection to United States employees working at the preclearance location;

(B) the facilities at the preclearance location conform to Federal Inspection Services standards and are suitable for the duties to be performed therein;

(C) there is adequate security around the structure used for the reception of international arrivals;

(D) the government of such country grants the United States Customs Service and the United States Immigration and Naturalization Service appropriate search, seizure, and arrest authority; and

(E) United States employees and their families will not be subject to fear of reprisal, acts of terrorism, and threats of intimidation.

(c) REPORT.—As soon as practicable after September 30, 1991, the Commissioner of Customs shall submit to the Congress a report regarding the preclearance operations program carried out under subsection (a). The report shall include—

(1) a summary of the preclearance operations, including the number of individuals processed, any administrative problems encountered, and cost of the operations;

(2) an evaluation of the extent to which the preclearance operations contributed to—

(A) the stimulation of the tourism industry of the country concerned, and

(B) expedited customs processing at United States ports of entry;

(3) the opinion of the Commissioner of Customs regarding the efficacy of extending preclearance operations to other countries within the Caribbean Basin that are developing tourism industries, and if the opinion is affirmative, the identity of those countries to which such operations should be extended and the estimated costs and results of such extensions; and

(4) such other matters that the Commissioner of Customs considers relevant.

BACKGROUND AND PURPOSE

In 1983, the Congress enacted the Caribbean Basin Economic Recovery Act (CBERA) establishing the unilateral program of preferential tariff treatment and tax benefits known as the Caribbean Basin Initiative (CBI). The program was originally submitted to the Congress by President Reagan in February, 1982, in response to the economic crisis threatening political and social stability throughout the Caribbean region. Presently, 22 countries are designated beneficiaries for duty-free access to the U.S. market of their eligible exports until Setpember 30, 1995. The CBI also provides certain tax benefits, including a convention tax deduction, operating of foreign sales corporations, and the availability of financing for active business investments in those countries that have signed a tax information exchange agreement.

The Committee is very concerned, however, that the existing program has not fully achieved the positive results that were intended. The CBI has improved the business climate in the Caribbean region and stimulated increased investment. However, changing market conditions, falling commodity prices, limited market access for major export products, and other factors have weakened the trade results and potential of the program. The current CBI program exempts from duty-free treatment a number of product categories of export interest to the Caribbean and sugar imports from the region have been severely reduced under the global quota program.

H.R. 1233 is recognition that the Caribbean Basin is a crucial region to the United States and its political and economic stability is a key component of our foreign policy and national security. The purpose of the bill is to build greater confidence in the region, create greater business certainty, and provide a long-term investment climate by enhancing the trade benefits of the program, thereby promoting economic development in the Caribbean. The proposed expansion of preferential tariff treatment and other program improvements in the legislation are the result of extensive Committee hearings and consultations with the Administration, representatives of the beneficiary governments, and the major private sector business interests affected. The bill as amended seeks to strike a balance between the critical economic development needs of the region and appropriate concerns of competing U.S. industries.

SUMMARY OF H.R. 1233, THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989, AS AMENDED

H.R. 1233, as amended in the form of a substitute, and ordered favorably reported by the Committee on Ways and Means, contains two titles of trade and related measures to improve the operation and effectiveness of the Caribbean Basin Initiative program. The principal provisions of H.R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989", as ordered reported by the Committee on Ways and Means, are summarized below:

Title I—Amendments to the Caribbean Basin Economic Recovery Act and Related Provisions

SUBTITLE A—AMENDMENTS TO CARIBBEAN BASIN ECONOMIC RECOVERY ACT

Section 101. Termination date

Section 101 repeals the September 30, 1995 termination date on duty-free treatment under the CBI.

Section 102. Treatment of product exemptions

Section 102 establishes a statutory Guaranteed Access Level program and duty-free treatment for imports of apparel and other textile products assembled in CBI countries of U.S. cut and formed fabric or of certain foreign fabric, and grants 50 percent duty reductions on imports of textiles and apparel articles subject to import quotas. Section 102 also grants 50 percent duty reductions on imports of footwear, except leather footwear, and handbags, luggage, flat goods, work gloves, and leather-wearing apparel from CBI countries currently exempt from duty-free treatment.

Section 103. Worker rights

Section 103 includes internationally-recognized worker rights conditions for the designation of CBI countries that are consistent with the existing standards under the Generalized System of Preferences (GSP) program, and requires the President to conduct a biennial review of CBI eligible countries based on all statutory designation criteria.

Section 104. Reports

Section 104 requires a report by the President to the Congress every 3 years on the operation of the CBI program.

Section 105. Eastern Caribbean and Belize

Section 105 expresses the sense of the Congress on the need for special efforts to improve the ability of the Eastern Caribbean countries and Belize to benefit from the CBI.

SUBTITLE B—AMENDMENTS TO THE HARMONIZED TARIFF SCHEDULE AND OTHER PROVISIONS AFFECTING CBI BENEFICIARY COUNTRIES

Section 111. Sugar imports

Section 111 establishes a guaranteed minimum floor at the 1989 level for sugar imports from CBI countries under the U.S. sugar quota program, requires the reallocation of unused and suspended or terminated sugar quotas to CBI countries, and authorizes trade agreement compensation if these actions violate U.S. international obligations.

Section 112. Tourist allowances

Section 112 increases the duty-free tourist allowance for U.S. residents returning from CBI countries from $400 to $600 and by 1 additional liter of alcoholic beverages if produced in the region, and increases the duty-free allowance for tourists returning from U.S. insular possession from $800 to $1,200.

Section 113. Articles assembled or processed from U.S. content

Section 113 grants duty-free and quota-free treatment to articles assembled or processed in CBI countries wholly of U.S. components or ingredients, except water.

Section 114. Rules of origin

Section 114 authorizes the President to proclaim, effective January 1, 1991, new rules for determining the origin of articles for duty-free CBI treatment, subject to consultation and reporting requirements and a 90-day Congressional layover period.

Section 115. Cumulation

Section 115 creates an exception to the general rule for cumulation of imports to determine material injury to domestic industries in antidumping and countervailing duty investigations if CBI imports are the subject of the investigation.

Section 116. Ethanol

Section 116 establishes several different criteria for the duty-free treatment of ethanol imports from CBI countries and U.S. insular possessions.

Section 117. Conforming GSP amendment

Section 117 amends the GSP statute to specifically require "substantial transformation" of an eligible article in a beneficiary developing country as a condition for duty-free treatment, in conformity with the existing CBI requirement.

TITLE II—SCHOLARSHIP ASSISTANCE AND TOURISM PROMOTION

Section 201. Scholarship assistance

Section 201 requires the Agency for International Development to establish, in cooperation with States and the private sector, a program of scholarship assistance for students from CBI countries to study in the United States in subject areas critical to the development needs of their countries. The Federal share would be funded under the Foreign Assistance Act of 1961.

Section 202. Tourism promotion

Section 202 expresses the sense of the Congress that U.S. Government agencies should assign a high priority to projects that promote tourism in the Caribbean, and requires the Secretary of Commerce to complete a study on tourism development strategies for the region.

Section 203. Pilot preclearance

Section 203 requires the U.S. Customs Service to carry out preclearance operations during fiscal years 1990 and 1991 at a site in the Caribbean appropriate for testing the extent that preclearance operations can assist in tourism development. The Commissioner must report to the Congress on the results of the pilot program.

Committee Action

H.R. 1233, as ordered reported, is the result of a year-long investigation by the Subcommittee on Oversight of the Committee on Ways and Means on the impact of the present CBI program and recommendations to improve its effectiveness, a series of hearings by the Subcommittee on Trade on legislation introduced in the 100th Congress, extensive consultations with representatives of the CBI beneficiary countries and major U.S. domestic industries, written comments submitted by the private sector and the statement of the Administration on H.R. 1233, and markup sessions of the Subcommittee on Trade and Committee on Ways and Means.

The results of hearings held by the Subcommittee on Oversight in February 1986 to review the operation and effectiveness of the CBI during its first 3 years of operation and the follow-up fact-finding mission of the Subcommittee, headed by Chairman J.J. Pickle, to five countries in the Caribbean Basin region in January, 1987 were reported to the full Committee with a set of recommendations in May 1987 (WMCP: 100–9). H.R. 3101 was introduced by Mr. Gibbons, Chairman of the Subcommittee on Trade, with cosponsors in August 1987, reflecting many of the Oversight recommendations, as well as input from the Administration and representatives of Caribbean countries. The Subcommittee on Trade held hearings on this bill on December 14, 1987 and on March 28 and September 15, 1988. No further action was taken during the 100th Congress on H.R. 3101.

As the 101st Congress began, extensive consultations were held by Members and the trade staff with Administration officials, representatives of CBI beneficiary countries, and with the private

sector, particularly with representatives of the U.S. domestic textile and apparel industries and labor unions and the domestic sugar industry and users, to resolve controversial issues of the bill and to seek a consensus on meaningful improvements to the program.

H.R. 1233 was introduced on March 2, 1989 by Mr. Gibbons with cosponsors. As a result of the consultation process, several of the more controversial provisions in H.R. 3101 were removed or modified to address concerns raised by the domestic textile and sugar industries and other suggested improvements were incorporated. The Subcommittee requested written comments on the bill from the interested public in a press release dated March 6, 1989; 59 submissions were received by the March 31 deadline and printed in a public document (WMCP 101-6). The Subcommittee also received numerous letters from Members of Congress and from the private sector commenting on the bill subsequent to the formal comment period. On April 11, the Adminstration provided the Subcommittee a written statement of its position on each provision of the bill and proposed additional improvements to the program.

The Subcommittee held markup sessions on H.R. 1233 on April 11, 26, and 27, 1989. On May 4, 1989, the Subcommittee on Trade ordered H.R. 1233 favorably reported to the full Committee on Ways and Means by voice vote, with amendments.

On June 20, the Committee on Ways and Means ordered H.R. 1233 favorably reported to the House by voice vote, with amendments.

Sections 201 and 202 of the bill as ordered reported were developed in cooperation with the Committee on Foreign Affairs and were included with full recognition of the jurisdiction of that committee over the subject matter of those provisions. The exchange of correspondence reflecting the understanding between the two committees on this matter is set forth below:

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, DC, June 27, 1989.

Hon. DANTE B. FASCELL,
Chairman, Committee on Foreign Affairs,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: I am writing to ask whether the Committee on Foreign Affairs would be willing to waive sequential referral of H.R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989", as amended by the Committee on Ways and Means and ordered favorably reported to the House on June 20.

Title II of the bill as amended contains provisions within the jurisdiction of the Committee on Foreign Affairs. Section 201 requires the Agency for International Development to establish a program of scholarship assistance for students in the Caribbean utilizing funds available under the Foreign Assistance Act of 1961. Section 202 contains a Congressional finding and sense of the Congress recognizing the priority importance of tourism in the Caribbean, and requires completion by the Secretary of Commerce of a study of tourism development strategies for the region.

These provisions were developed in consultation with your Committee staff and were included as amendments to H.R. 1233, as introduced, only upon the understanding that they would be acceptable to the Committee on Foreign Affairs. There is considerable Member interest in obtaining early consideration of this Caribbean Basin legislation in the House so that Senate action may take place this year. Given these circumstances, I would appreciate your, as Chairman of the Committee, waiving sequential referral of the bill, on the understanding that waiving jurisdiction in this instance would not in any way create a precedent with respect to jurisdiction and referral of legislation containing any similar type provisions in the future. I would also be willing to include this exchange of letters in the report to be filed by the Committee on Ways and Means on the bill.

I appreciate your consideration of this matter.

Sincerely yours,

DAN ROSTENKOWSKI,
Chairman.

COMMITTEE ON FOREIGN AFFAIRS,
HOUSE OF REPRESENTATIVES,
Washington, DC, June 28, 1989.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: Thank you for your letter requesting the House Foreign Affairs Committee waive sequential referral of H.R. 1233, "The Caribbean Basin Economic Recovery Expansion Act of 1989".

I have reviewed those sections of the bill that would be in the jurisdiction of the Committee on Foreign Affairs, Sections 201 and 202, and I am happy to comply with your request that the Committee waive sequential referral, without prejudice to such jurisdiction.

I appreciate your cooperation and that of your staff in consulting with the Committee on Foreign Affairs prior to the adoption of these provisions.

With best wishes, I am

Sincerely yours,

DANTE B. FASCELL, *Chairman.*

SECTION-BY-SECTION ANALYSIS, JUSTIFICATION, AND COMPARISON WITH PRESENT LAW

Section 1. Short title

Section 1 of H.R. 1233 provides that the Act may be cited as the "Caribbean Basin Economic Recovery Expansion Act of 1989".

Section 2. Congressional findings

Section 2 of H.R. 1233 makes Congressional findings that (1) a stable political and economic climate in the Caribbean region is necessary for development of the countries in that region and for U.S. security and economic interests; (2) the Caribbean Basin Eco-

nomic Recovery Act was enacted in 1983 to assist in the achievement of such a climate by stimulating the development of the export potential of the region; and (3) the U.S. commitment to the successful development of the region, as evidenced by the enactment of the CBERA, should be reaffirmed and further strengthened by amending that Act to improve its operation.

TITLE I—AMENDMENTS TO THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT AND RELATED PROVISIONS

SUBTITLE A.—AMENDMENTS TO CARIBBEAN BASIN ECONOMIC RECOVERY ACT

Section 101. Repeal of termination date on duty-free treatment under the act

Present law

Section 218(b) of the CBERA contains a September 30, 1995 termination date for duty-free treatment of eligible imports from CBI beneficiary countries. There is no statutory termination date on the tax provisions of the CBI program.

Explanation of provision

Section 101 of the bill repeals the statautory termination date on duty-free treatment under the CBERA.

Reasons for change

The purpose of removing the termination date is to create greater certainty for potential investors that preferential access provided to the U.S. market under the CBI will remain in effect. Officials in the CBI beneficiary countries regard this provision creating a permanent program as one of the most important in the bill for attracting new investment and demonstrating the U.S. commitment to the region. While Congress retains its prerogative to legislate changes in the program or to terminate it at any time, passage of renewal legislation will no longer be necessary to maintain program benefits in place.

Section 102. Exceptions to general duty-free treatment

Section 102 of H.R. 1233, as amended by the Committee, contains provisions for duty-free treatment and duty reductions on imports of certain textile and apparel articles from CBI beneficiary countries, and for 50 percent duty reductions on imports of certain other products from Caribbean countries that are currently exempt from duty-free treatment.

A. Treatment of textiles and apparel

Present law

Tariff treatment.—Section 213 of the CBERA exempts imports of textiles and apparel which are subject to textile agreements from duty-free treatment under the CBI. Under item 9802.00 of the Harmonized Tariff Schedule of the United States (HTS) (formerly tariff item 807.00), duties are not applied to the value of fabric cut in the

United States and assembled in the Caribbean into apparel or other textile products then imported into the United States.

Import quotas.—Certain imports of textiles and apparel are subject to import quotas (known as Specific Limits or SLs) under bilateral agreements with some CBI beneficiary countries. Such bilateral agreements are negotiated under authority of section 204 of the Agricultural Act of 1956 and in accordance with the GATT Multifiber Arrangement (MFA). The SLs are negotiated on a product-category basis when imports of these products are disrupting or threatening to disrupt the U.S. market for directly competing domestically-produced articles. In addition, some bilateral agreements include Designated Consultation Levels (DCLs) for particular product categories. A DCL acts as a temporary quota pending the resolution of consultations if an exporting country requests an export level higher than the DCL. Products imported under SLs or DCLs may be assembled from U.S. and/or foreign components.

At the present time, bilateral textile agreements are in force with six CBI beneficiary countries (Costa Rica, Dominican Republic, El Salvador, Haiti, Jamaica, and Trinidad and Tobago). The agreements with Costa Rica and the Dominican Republic contain SLs but not DCLs; the agreements with El Salvador, Haiti, and Trinidad and Tobago contain DCLs but not SLs; and the agreement with Jamaica contains both SLs and DCLs. The interagency Committee for the Implementation of Textile Agreements (CITA), chaired by the Department of Commerce, administers the textile import program.

Guaranteed access levels.—On February 20, 1986, the Reagan Administration announced a Special Access Program for Textiles (commonly known as the "807-A" or "Super-807" program) to guarantee access to the U.S. market for apparel and "made-up" textile products assembled in participating CBI beneficiary countries from fabric formed and cut in the United States. These Guaranteed Access Levels (GALs) are flexible limits applied under bilateral agreements negotiated at the request of Caribbean countries. The GALs are separate from, and usually significantly higher than, SLs or DCLs and are generally increased upon request of the exporting country. Products assembled in Caribbean countries of U.S. formed and cut fabric may incorporate findings and trimmings of foreign origin and still qualify for GAL treatment provided they do not exceed 25 percent of the cost of the components of the assembled product. When assembled products re-enter the United States, import duties are assessed only on the value added during assembly in the Caribbean, including the cost of labor and the addition of any findings and trimmings sourced from third countries; the value of the cut U.S. fabric is excluded from the total dutiable value of the imported product.

The CITA, in conjunction with the U.S. Customs Service, administers and enforces the GAL program. Standards and procedures for implementing the GAL program and the definition of foreign findings and trimmings have been established by regulation. Under the terms of the bilateral agreements, goods qualifying for GAL treatment must be certified by the government of the exporting country as eligible under the program. In order for the U.S. Customs Service to determine qualified merchandise, GAL shipments

must also be accompanied by a three-part Special Access Program CBI Export Declaration signed by both a responsible official of the U.S. firm which exports the cut pieces and imports the finished product, and by the foreign assembler of the goods. The form certifies that the fabric parts were formed and cut in the United States, assembled in an eligible Caribbean country, and re-entered into the United States by the same importer who originally exported the cut pieces. At the present time, there are bilateral GAL agreements with five Caribbean countries: Costa Rica, Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago.

Explanation of provision

Section 102 of H.R. 1233, as amended by the Committee, amends section 213 of the CBERA to add a new section 213A that includes two provisions to grant more liberal access to the U.S. market for textile and apparel imports from CBI beneficiary countries. Subsection (a) grants duty-free treatment to imports of textile products subject to a statutory GAL program. Subsection (b) grants preferential duty reductions on imports of textile and apparel articles from the Caribbean subject to import quotas (SLs or DCLs).

Duty-free treatment under statutory GAL program.—New section 213(a), as amended, codifies the administrative GAL program as a statutory program. Any GAL agreements with CBI beneficiary countries existing on the date of enactment of the Act will be "grandfathered" as valid agreements under the statutory program. The U.S. Trade Representative (USTR) shall establish GALs with each CBI beneficiary country for textile products assembled in that country from qualifying fabrics. The USTR is authorized to negotiate and conclude bilateral agreements with the beneficiary countries on the actual levels of annual exports that will be subject to GAL treatment.

Unlike the present administrative program, the USTR is required to establish GALs by bilateral agreements with all CBI beneficiary countries, not just upon the request of a country. The Committee intends that GALs be established and their levels negotiated entirely separate from any existing or future SLs or DCLs. In other words, the authority provided in the bill to negotiate bilateral agreements applies only to GALs, not to any other form of import limitation. There should be no linkage or quid pro quo between establishment and levels of future GALs with a CBI country and agreement by that country to new or more restrictive SLs or DCLs. GALs should continue to be flexible and generally set as high as an exporting country requests, without causing or threatening disruption in the U.S. market.

As under the present administrative GAL program, textile products may incorporate findings and trimmings of foreign origin that do not exceed 25 percent of the cost of the components of the assembled product and qualify for GAL treatment. New section 213A(a) as amended by the Committee, also expands the types of fabric that can be assembled in the Caribbean and qualify for GAL treatment. In addition to fabric that is formed and cut in the United States, the term "qualifying fabric" also includes a list specified under paragraph (1) of 8 fabrics of foreign manufacture that need not be formed, but must be cut, in the United States.

New section 213A(a) also grants duty-free treatment to the total value of textile products entering the United States from CBI beneficiary countries under the statutory bilateral GAL agreement program, not merely to the value of the U.S. fabric content currently exempt from duty.

The CITA shall establish the requirements and procedures that are necessary or appropriate to implement the bilateral GAL agreements. The Committee intends that the regulations that apply to the current administrative GAL program will continue to apply except for changes necessary to conform to the statutory GAL program. In particular, the Committee intends that the definition in the current regulations of foreign findings and trimmings, including elastic strips, will continue to apply, and that the same type and degree of customs documentation and certification will be required to prevent transshipments of unqualified products under the program. The Committee further intends that products which are "stonewashed" or "acid washed" in the Caribbean and covered by GAL agreements would receive duty-free treatment under the statutory program by virtue of the GAL coverage even though they do not currently qualify under tariff item 9802.00 (former item 807.00).

Sense of the Congress.—Paragraph (6) of new section 213A(a), as amended, expresses the sense of the Congress that the benefits granted through the establishment of GALs under bilateral textile agreements should not result in any disadvantage to U.S. firms that seek export certificates or export visas which authorize shipments under SLs. The USTR should obtain assurances from CBI beneficiary countries which have been granted GALs that such countries will administer export certificates or export visas in a manner that ensures fairness and nondiscriminatory treatment to U.S. firms that seek allocations under SLs rather than GALs.

The Committee is concerned that the operation of the GAL program for the Caribbean not result in U.S. business affiliates being pressured by Caribbean countries to use GALs instead of SLs. The GAL program is meant to supplement, not supplant, the opportunities for trade in textiles under SLs. It would be contrary to this intent of this legislation if Caribbean countries, through the administration of their export certification systems, were to pressure U.S. business affiliates to use GAL categories so that SLs may be reserved, or preferentially allocated, to Caribbean or other foreign investors.

Opportunities for U.S. business affiliates to obtain allocation under SLs should not diminish as a result of the expanded GAL program. The "sense of the Congress" provision is meant to express this expectation. The Committee adopted a substitute amendment for the provision in the bill as introduced to clarify the precise nature of the concern regarding fair and nondiscriminatory treatment.

Duty reductions on imports subject to quota.—New section 213A(b) reflects a proposal made by the Administration and amended by the Committee to provide greater U.S. market access for textile products of the Caribbean that do not enter under the GAL program and may consist of foreign fabric, but are subject to quantitative import limits. Subsection (b) provides for a reduction of 50

percent in the rates of duty currently applicable to imports of textile and apparel articles produced in CBI beneficiary countries that are subject to quantitative limits in the form of either SLs or DCLs. This 50 percent duty reduction to be proclaimed by the President will apply to imports under existing and any future SLs or DCLs, effective as provided under section 102(c) of the bill with respect to articles entered, or withdrawn from warehouse for consumption, on or after 30 days after the date of enactment of the Act.

The duty reduction will be based on the trade-weighted average most-favored-nation (MFN) tariff. This average will be calculated by the Secretary of Commerce for each product category subject to quota based on imports from MFN sources during the most recent 12-month period available prior to the date of enactment of the Act. For example, if the trade-weighted average MFN rate of duty for a particular product category (e.g., woven shirts of cotton and man-made fiber) is 20 percent, then no product within that category would have a rate of duty applicable to imports from a Caribbean country subject to the bilateral quota higher than 10 percent. If a rate of duty on a particular article is already lower than the duty resulting from the 50 percent reduction for the product category as a whole, that lower existing rate of duty would remain in effect for that particular tariff item.

The Committee was concerned that potential substantial duty reductions not be used by the Administration as a "carrot" or as negotiating leverage to obtain agreement by Caribbean countries to future import quotas of broader product coverage or more restrictive levels. Such actions would be contrary to the basic purpose of the legislation, namely to increase CBI benefits through more liberal, not more restricted, market access. Consequently, the Committee amended the Administration proposal to require automatic 50 percent duty reductions, rather than discretionary authority of up to 50 percent reductions, on future as well as existing imports subject to SLs or to DCLs.

Reasons for change

It is clear from the review by the Subcommittee on Oversight of the present CBI program and the extensive consultations of the Subcommittee on Trade with representatives of the Caribbean nations that the textile and apparel industry plays a central role in the economic development of the region and that provision of greater access to the U.S. market for products of that industry is essential to the success of the CBI. In view of declining exports in traditional commodities, textiles and apparel have become a major sector for expanding the export base and foreign exchange earnings of these fragile economies. Textiles and apparel remain the largest employer in the manufacturing sector in the Caribbean.

The Committee has sought to achieve a balance between the development needs of the Caribbean and the competitive situation of U.S. textile and apparel producers and workers. By granting duty-free treatment and duty reductions on certain Caribbean textile products, the bill gives that region a competitive price advantage over other textile-exporting areas to attract increased investment and to increase exports to the U.S. market. By limiting liberalized tariff treatment to those products that are subjuct to some form of

quantitative import ceiling, the bill also preserves the form of border protection that the U.S. domestic industry regards most important.

Further, H.R. 1233 seeks to build on the benefits that have resulted under the GAL program both for the Caribbean economies as an attractive area for offshore apparel manufacturing and for U.S. fabric producers through increased export opportunities. Creating a permanent GAL program provides the stability and certainty needed for investment in further production-sharing arrangements that serve both Caribbean and U.S. economic interests. Inclusion by the Committee of a specific list of foreign fabrics not made in the United States that will qualify under the GAL program addresses the problem raised by U.S. apparel producers that they are unable to obtain certain fabrics in the United States, and will make the GAL program more attractive for U.S. investment in the Caribbean. The statutory list of fabrics was developed in consultation with representatives of U.S. producers of textiles and U.S. producers of apparel (i.e., fabric users). The Committee substituted this list in lieu of the annual administrative procedure in the bill as introduced in order to eliminate any difficulties in obtaining agreement on identification of specific fabrics in the future and to provide certainty for potential investors.

It is estimated that for every $100 in apparel exported to the United States under GALs, about $80 of the value originated in the United States as fabric and the remaining $20 was value-added in the Caribbean. Duty-free treatment of this value-added will provide significant benefits to the region. This additional duty-free treatment will also be of significant benefit to the U.S. textile industry by encouraging greater use of American formed and cut fabric in the Caribbean and thereby increasing export opportunities for U.S. fabric producers. Retaining the cutting of U.S. formed fabric and of qualified foreign fabric in the United States preserves American jobs in this labor-intensive activity while providing the Caribbean added benefits through incentives for expanded assembly operations.

The automatic 50 percent duty reductions on textile and apparel products subject to existing and any future import quota limitations provides an additional competitive advantage for Caribbean textile and apparel production vis-a-vis textile and apparel producers in other foreign countries. The duty reductions could provide an economic incentive for exporting countries to fill their quotas fully, which is not now always the case. The use of a trade-weighted average base rate for the duty reductions will provide, in most cases, a single common tariff for all textile and apparel imports from the Caribbean subject to import quotas for ease and simplicity of administration.

The Committee notes that imports of textile products from several major suppliers, particularly newly industrialized countries, have decreased over the past year or two. In part, these decreases reflect shifts in the relative competitiveness of foreign suppliers. As the USTR negotiates individual quotas or bilateral agreements, pursuant to the "Arrangement Regarding International Trade in Textiles" (MFA) it should seek to reduce the quota levels for those textile products which have not been filling their quota. In particu-

lar, the Committee notes that bilateral textile agreements with certain suppliers in the Far East are due to expire at the end of this year.

As reductions in textile quotas from other regions of the world are achieved, the USTR should provide additional access to the U.S. market for Caribbean beneficiary nations, beyond what would normally by provided through the orderly development of trade, as envisioned in the MFA. The Committee intends that the preferential nature of the CBI initiative be reflected no only through the tariff treatment provisions under the bill, but also through more generous and preferential access for CBI countries in the negotiation of textile quotas.

B. Treatment of other product exemptions

Present law

Under section 213(b) of the CBERA, imports from CBI beneficiary countries of footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not eligible for duty-free treatment under the Generalized System of Preferences (GSP); canned tuna; petroleum and petroleum products; and watches and watch parts containing any materials from non-MFN country sources are exempt from duty-free treatment under the CBI.

Explanation of provision

New section 213(c) of H.R. 1233, as amended by the Committee, provides for a 50 percent reduction in the present rates of duty applicable to footwear, except leather footwear; handbags; luggage; flat goods; work gloves; and leather wearing apparel that are products of CBI beneficiary countries. The remaining product categories currently exempt from CBI duty-free treatment (other than textiles and apparel) would continue to be subject to existing rates of duty, namely leather footwear, canned tuna, petroleum and petroleum products, and watches and watch parts containing any materials from non-MFN country sources.

The Committee adopted the 50 percent duty reduction proposed by the Administration as a substitute for the duty-free tariff-rate quota provisions included in H.R. 1233 as introduced. The bill as amended would not provide duty-free treatment for any imports in the presently exempt product categories, but the 50 percent duty reductions would apply without limitation to all products of Caribbean beneficiary countries entering under each tariff item covered.

Reasons for change

The 50 percent duty reductions on Caribbean exports of non-leather footwear and of leather-related products should provide an incentive for increased investment and production of benefit to the region. The Committee amended the bill as introduced to maintain the present rates of duty on imports from the Caribbean of leather footwear, petroleum and petroleum products canned tuna, and certain watches. The Committee regarded the potential economic benefit of 50 percent duty reductions to the Caribbean countries on these product categories as likely to be minimal, whereas the competing U.S. industries could be adversely affected. The Committee

substituted the Administration's proposal for the duty-free tariff rate quota in the original bill since across-the-board duty reductions are simpler to understand and administer for purposes of expanding access.

With respect to footwear, serious concerns were expressed to the Committee by Members of Congress and the U.S. industry that a 50 percent duty on imports of leather footwear would encourage further adverse competition for domestic producers by imports that already account for 82 percent of the U.S. market. Imports of leather footwear are subject to relatively low rates of duty in comparison with duties on other types of footwear. The preferential 50 percent duty reduction on non-leather footwear, on the other hand, will give the Caribbean countries the benefit of a significant competitive price advantage that should attract a shift of low cost, labor intensive production and investment from Far East suppliers. At the same time, imports from the Caribbean of non-leather footwear and of leather-related products should not pose a competitive threat to U.S. producers; imports from the Caribbean are less than one percent of total U.S. imports of these products.

The Committee exempted petroleum and petroleum products from a 50 percent duty reduction in order to maintain the current tariff differential of about 1 cent per gallon between crude petroleum and refined petroleum product. A reduction in the differential could encourage further offshore refining and increase the competitive disadvantage for already depressed U.S. refineries that face significant additional costs associated with environmental protection. Since petroleum refining is capital rather than labor intensive, the duty reduction would be unlikely to contribute significantly to the economic development of the few Caribbean countries involved.

The Committee retained the present duty on canned tuna in view of the concerns expressed to Members that a 50 percent duty reduction could lead to development of a new industry in the Caribbean highly competitive with the U.S. tuna processing industry remaining only in American Samoa and Puerto Rico. These domestic canneries are very important sources of employment and exports for those island economies. The Committee also adopted the Administration's proposal to retain the current exemption of watches since the benefit of duty-free treatment would not accrue to CBI countries. All watches and watch parts currently enter duty-free from the Caribbean except for those containing parts or materials from non-MFN sources.

Section 103. Worker rights

Present law

Section 212(c) of the CBERA requires the President to take into account in determining whether to designate any country as a CBI beneficiary the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively. Section 212(b) of the CBERA prohibits the President from designating any country as a CBI beneficiary if such country does not meet specified statutory criteria, some of which may be waived if the President determines that designation

will be in the national economic or security interest of the United States. Worker rights are not included in these mandatory designation criteria.

Section 212(e) of the CBERA authorizes the President to withdraw or suspend designation of a country as a CBI beneficiary or to withdraw, suspend, or limit the application of duty-free treatment to any article of a beneficiary country if the President determines that as a result of changed circumstances the country would be barred from designation as a beneficiary because it does not meet one or more conditions under section 212(b).

Explanation of provision

Section 103 reflects an amendment adopted by the Committee to H.R. 1233 as introduced to add a new criteria to section 212(b) of the CBERA that prohibits the President from designating any country as a CBI beneficiary if such country has not or is not taking steps to afford internationally-recognized worker rights to workers in the country (including any designated zone in that country), as those rights are defined under the GSP statute. The Presidential waiver for economic or national security reasons would apply. The existing criteria under section 212(c) of the CBERA for taking into account worker conditions in the country is also amended to be consistent with the new standard under section 212(b).

Section 103 also adds a new requirement to section 212(e) of the CBERA that the President conduct a general review of beneficiary countries not later than January 4, 1991 and biennially thereafter, based on all of the considerations in section 212(b) and (c).

Reasons for change

The amendments to section 212(b) and (c) make the criteria for the application of internationally-recognized worker rights to CBI beneficiary countries identical to and consistent with the standards that already apply to those same countries as beneficiaries under the GSP program. These provisions will help to ensure that working people in the Caribbean more fully benefit from the CBI program.

There is no statutory requirement or administrative procedure under the CBI program, as exists under the GSP program, for regular review of beneficiary countries based on the criteria that applied to their original designation. The amendment will provide for such a periodic review based on all of the factors listed in section 212 of the CBERA.

Section 104. Reports

Present law

No provision.

Explanation of provision

Section 104 of the bill amends section 212 of the CBERA to require the President to submit a complete report to the Congress by October 1, 1992, and every 3 years thereafter regarding the operation of the CBI.

Reasons for change

This new reporting requirement is similar to the report currently required by statute on the operation of the GSP program. The report will provide a basis for periodic Congressional review of the administration of the program and possible future changes to improve its operation, particularly with the repeal under section 101 of the bill of the statutory termination date on CBI duty-free treatment.

Section 105. Application of act in Eastern Caribbean Area

Present law

No provision.

Explanation of provision

The Committee added section 105 to H.R. 1233, as introduced, to express the sense of the Congress that special efforts should be undertaken to improve the ability of the Organization of Eastern Caribbean States countries and Belize to benefit from the CBERA.

Reason for change

The small, lesser developed nations of the Eastern Caribbean (Grenada, St. Vincent and the Grenadines, St. Lucia, Dominica, Antigua and Barbuda, St. Kitts and Nevis, and Montserrat) and the country of Belize require special assistance to enhance their investment climates. Many of these countries have only recently attained their independence, experience critical transportation and infrastructure problems, have small populations, and limited resource bases.

SUBTITLE B—AMENDMENTS TO THE HARMONIZED TARIFF SCHEDULE AND OTHER PROVISIONS AFFECTING CBI BENEFICIARY COUNTRIES

Section 111. Sugar imports from beneficiary countries

Present law

Additional U.S. notes under Chapter 17 of the Harmonized Tariff Schedule provide the statutory authority to establish an annual quota for U.S. imports of sugars, syrups, and molasses. The global quota is allocated on a country-by-country basis among supplying countries in accordance with their historic shares of the U.S. market. In addition, section 902 of the Food Security Act of 1985 (Public Law 99–198) requires that the U.S. sugar program operate under no cost to the Federal government. As a result of this no-net-cost requirement, the global sugar import quota has fluctuated annually. The 1989 global sugar import quota is about 1.2 million short tons.

Section 213 of the CBERA provides duty-free treatment under the GSP program on imports of sugar from all CBI beneficiary countries except the Dominican Republic, Guatemala, and Panama or, if the country so requests, absolute quotas whenever a proclamation to protect a U.S. sugar price support program is in effect. Sugar imports from the three countries are subject to duty-free absolute quotas. The President may adjust or suspend any of the

CBERA limits or duty-free treatment depending on U.S. market conditions or to protect the price support program; more restrictive quota programs under other provisions of law also take precedence.

Explanation of provision

Section 111 of H.R. 1233 amends the sugar import quota authority under the additional U.S. notes of chapter 17 of the HTS to establish a guaranteed minimum access level for sugar imports from CBI beneficiary countries that are allocated quotas. The aggregate amounts of base quota allocations to CBI countries for any quota year after 1988 may not be less than the 1989 aggregate level of 371,449 metric tons. Irrespective of the total global import quota level set in future years, the CBI aggregate quota cannot be reduced below the current 1989 level, but the CBI share would increase proportionally if the amount of the total global import quota increases in future years.

Section 111 also amends the HTS note authority to require the Secretary of Agriculture to determine whether any country is not fully utilizing its base quota allocation for that quota year and to reallocate any amount unused during that year on a pro rata basis to CBI countries receiving base quota allocations for that year. If a quota allocation is suspended or terminated with respect to any country for any year under law authorizing such action for national security or foreign policy reasons, the amount of the suspended or terminated allocation shall also be reallocated on a pro-rata basis among CBI countries receiving allocations for that year. Any unused or suspended or terminated quota amounts would be reallocated only for the same quota year; no such amounts would be carried over into a subsequent quota year. For example, the allocation currently suspended for Panama would be reallocated among the CBI sugar-exporting countries for use in the current 1989 sugar quota year.

Section 111 also authorizes the President to enter into and proclaim trade agreements with foreign governments granting appropriate compensation if any of these sugar actions are found to be inconsistent with U.S. international obligations, including under the General Agreement on Tariffs and Trade. The President must first consult with the House Ways and Means and Senate Finance Committees on the reasons for taking the action and the compensation proposed to be offered.

Reasons for change

Sugar continues to be the most, or in some cases the second most, important crop in the Caribbean Basin region in terms of providing foreign exchange and a major source of employment. Twelve countries in the region have an important sugar industry. During the period 1983–1988, the U.S. sugar import quota level for the region declined by about 77 percent. In 1988 the sugar quotas increased slightly because of the U.S. drought. This declining trend has had a devastating impact on the Carribbean economies since the U.S. sugar market is of critical importance to CBI exporters.

Caribbean government representatives have stressed to Members of the Committee on Ways and Means the importance of providing increased and stable access to the U.S. sugar market. The Commit-

tee has sought to meet these basic objectives, in consultation with U.S. domestic sugar interests.

U.S. market access at the 1989 quota amount represents, in the view of CBI countries, the minimum subsistence level to maintain the Caribbean industry. The guarantee of at least that annual amount, plus possibility of future increases as a result of reallocations from other countries or a higher global quota, provides the market stability and certainly for the region that is essential to making production decisions in this critical sector.

Section 112. Increase in duty-free tourish allowances

Present law

Notes and tariff items under subchapter IV of chapter 98 of the Harmonized Tariff Schedule provide a duty-free tourist allowance to returning U.S. residents arriving directly or indirectly form foreign countries (including CBI beneficiary countries) of $400, and an allowance to U.S. residents returning from U.S. insular possessions of $800. In addition, U.S. residents returning from foreign countries may bring in not more than 1 liter of alcoholic beverage duty-free and excise-tax free.

Explanation of provision

Section 112 of H.R. 1233, as amended by the Committee, establishes a new tariff item 9804.00.72 of the HTS to increase the duty-free allowance for U.S. residents returning directly or indirectly from a CBI beneficiary country from $400 to $600. The Committee also adopted an Administration proposal to allow such tourists to enter 1 additional liter of alcoholic beverages duty- and excise-tax free if produced in a CBI beneficiary country. Section 112 also amends the HTS to increase the duty-free allowance for U.S. residents returning from U.S. insular possessions from $800 to $1,200.

Reasons for change

The increase in the allowances for the tourists returning from the Caribbean will provide additional incentive to make purchases in the region, of benefit to area economies given the growth and importance of tourism. The increase in the duty-free allowance for tourists returning from the U.S. insular possessions maintains the traditional 2:1 ratio in their favor in relation to the allowance for tourists returning from foreign countries.

Section 113. Duty-free treatment for articles assembled in beneficiary countries from components produced in the United States

Present law

U.S. Note 2 of subchapter II of chapter 98 of the Harmonized Tariff Schedule treats an article returning to the United States after being advanced in value or improved in condition abroad as a "foreign article", and thereby subject to U.S. duties and quotas upon reentry.

Explanation of provision

The Committee adopted an Administration proposal to grant duty-free treatment to the value-added in CBI beneficiary countries for articles assembled in such countries from 100 percent U.S. content, and duty-free and quota-free treatment to articles processed in CBI beneficiary countries from 100 percent U.S. ingredients, except water. This provision would not apply to textile and apparel articles.

Section 113 implements this addition to the bill as an amendment to the U.S. Note 2 create an exception to the normal rule that articles returning to the United States after being advanced in value or improved in condition abroad are treated as foreign articles. The exception, in effect, retains U.S. origin for articles (other than textiles and apparel) that are wholly assembled or processed of U.S. components or ingredients in a CBI beneficiary country and returned directly to the United States without having undergone processing in any other country. These articles would thereby be exempt from the application of U.S. duties or quotas upon reentry.

Reasons for change

The purpose of this limited exeption to the general CBI rules of origin is to encourage small-scale investments in assembly and processing facilities in areas of the Caribbean that are not able to support full-fledged manufacturing or processing operations. For example, certain investors may have considered processing fruit juice in the Caribbean if they had been able to receive duty-free treatment for their products upon their reentry into the United States. The amendment would provide an incentive for such operations when only U.S. components or ingredients are used. In turn, the amendment encourages greater sales of U.S. products and further integration of production between the United States and the Caribbean. The Committee expects the U.S. Customs Service to strictly enforce the requirment that any articles entered under this provision are, in fact, wholly of U.S. content and do not contain any components or ingredients of foreign countries.

Section 114. Rules of origin for beneficiary country products

Present law

Section 213 of the CBERA sets forth rule-of-origin requirements that must be met for an article to be eligible for duty-free treatment under the CBI. These rules provide that an article is eligible for such treatment if it meets three basic tests: (1) the article is imported directly from a CBI beneficiary country into the customs territory of the United States; (2) a minimum of 35 percent of the appraised value of the article consists of the costs or value of materials produced in one or more beneficiary countries plus the direct costs of processing operations performed in one or more beneficiary countries, of which up to 15 percent may consist of materials or components produced in the United States; and (3) the article must be wholly the growth, product, or manufacture of a beneficiary country, or must be a new or different article of commerce which has been grown, produced, or manufactured (i.e., "substantially transformed") in the beneficiary country. The statute also requires

that regulations prohibit eligibility for duty-free treatment if the article merely undergoes certain minor operations, in order to prevent mere pass-through operations of little economic benefit to the Caribbean and transshipments from third countries in order to avoid U.S. duties.

Explanation of provision

The Committee adopted an Administration proposal to authorize the establishment of new rule-of-origin requirements for CBI duty-free treatment. Section 114(a) of H.R. 1233, as amended, authorizes the President to proclaim, effective on January 1, 1991, new rules for determining whether articles originate in beneficiary countries.

As provided under section 114(b), the new rules may not be proclaimed unless the President has complied with the requirements of a consultation and layover procedure: (1) obtained advice regarding the proposed rules through consultations with appropriate private sector advisory committees established under section 135 of the Trade Act of 1974, the governments of CBI beneficiary countries, the House Ways and Means and Senate Finance Committees, and other interested parties; (2) submitted a report to the House Ways and Means and Senate Finance Committees setting forth the proposed rules and the reasons therefor; (3) at least 90 calendar days expire after the consulting and reporting requirments are met before the new rules are proclaimed; and (4) the two Committees are further consulted during that layover period.

Reasons for change

The primary reason for authorizing new rules for determining CBI origin is to provide a basis for the Administration to develop a system applicable to Caribbean Basin exports to the United States that would give greater transparency and predictability than the present system involving subjective determinations with respect to substantial transformation. The Committee intends that such rules be developed in close consultation with all interested parties, including the private sector, the CBI beneficiary countries, and the Congressional committees of jurisdiction.

The Committee understands that existing rules of origin for implementing the U.S.-Canada Free Trade Agreement would be used as point of departure in developing rules for administering the CBI. The new system would be based primarily on "substantial transformation" being conferred by a change in tariff classification under the Harmonized Tariff Schedule. These rules should be carefully examined, however, to determine their applicability to the Caribbean context. For example, special rules using value-added criteria will be needed when no change in harmonized tariff classification would occur, particularly to cover assembly operations.

New rules of origin could be of significant benefit to Caribbean exporters by providing greater certainty as to their customs treatment in the U.S. market. The Committee is concerned, however, that any new rules continue to require meaningful local content of benefit to the Caribbean and to preclude mere pass-through operations and transshipments from third countries. The Committee will maintain close oversight as the Administration develops these rules and will seek the views of U.S. private sector interests, in

order to ensure that these concerns are satisfied. The delay in implementation of new rules to January 1, 1991, is designed in part to provide sufficient opportunity to observe the U.S.-Canada rules of origin in operation and to study their effectiveness in discouraging circumvention.

Section 115. Cumulation involving beneficiary country products under the countervailing duty and antidumping duty laws

Present law

Under section 771(7) of the Tariff Act of 1930, imports from CBI beneficiary countries are aggregated together with imports of the like product from all non-CBI suppliers under investigation under the antidumping and countervailing duty laws, in determining whether the unfair trade practice causes or threatens material injury to the U.S. domestic industry.

Explanation of provision

Section 115 of H.R. 1233, as amended by the Committee, amends section 771(7) to create an exception to the general cumulation rule if imports from a CBI beneficiary country are the subject of an antidumping or countervailing duty investigation. In such cases, imports from that CBI country may only be cumulatively assessed with imports of like products from other CBI countries under investigation. Imports from CBI countries would no longer be cumulated with imports of like products from non-CBI sources for purposes of determining injury in investigations concerning CBI country imports. However, imports from CBI countries would continue to be cumulated with non-CBI country imports of like products if a non-CBI country is the subject of the investigation. The amendment would apply to investigations initiated on or after the date of enactment of the Act.

Reason for change

Imports from the Caribbean Basin region are usually small in quantity, having minimal impact on the competing U.S. domestic industry. When cumulated with imports from other regions of the world, however, CBI imports subject to antidumping or countervailing duty investigations are more vulnerable to affirmative injury determinations. This vulnerability has impeded new or expanded business development in the region. In order to increase confidence in the opportunities for exporting to the U.S. market, section 115 provides a special cumulation rule for injury determinations in investigations of CBI imports.

This special cumulation rule for CBI imports attempts to balance the interest of the Caribbean region with the interests of American industries facing import competition. While the trade benefits of the CBI program should lead to increased exports from the region to the U.S. market, if such exports are being dumped or subsidize so as to cause or threaten material injury to the domestic industry, then the antidumping and coutervailing duty laws would be applied.

It should be noted, however, that CBI imports would not be exempted from the operation of the general cumulation provision

when determining material injury for purposes of an investigation of non-CBI imports. The Committee carefully considered the implications of segregating CBI imports for purposes of cumulation, and amended the provision in the bill as introduced to clarify that, when determining material injury by reason of imports from non-CBI countries, imports from all relevant sources including CBI countries, would be cumulated together. The Committee does not intend for non-CBI countries to be subject to a lesser degree of cumulation as a result of the special CBI cumulation rule.

Section 116. Ethyl alcohol and mixtures thereof for fuel use

Present law

Under the CBERA, articles are entitled to duty-free treatment if they are produced in the region and at least 35 percent of their value was added in the CBI countries. The Tax Reform Act of 1986 amended the 1983 CBI legislation to require increasing amounts of CBI feedstock on order for ethanol to qualify for duty-free treatment—30 percent in 1987; 60 percent in 1988; and 75 percent in 1989 and thereafter. Several companies were "grandfathered" for two years, allowing them to operate under pre-1986 criteria through 1989.

The Omnibus Trade and Competitiveness Act of 1988 extended the "grandfather" through the end of 1989 for six dehydration plants already built or under construction but imposed an import cap of 20 million gallons per facility. The Act also requested reports by the U.S. International Trade Commission (ITC) and the General Accounting Office (GAO) on whether or not the current local feedstock requirements make CBI ethanol production economically feasible. As of January 1, 1990, all CBI will be subject to the 75 percent local feedstock requirement.

Explanation of provision

Section 116 establishes several different critieria for the duty-free entry or ethanol from CBI beneficiary countries and U.S. insular possessions.

Ethanol (and any mixture thereof) that is *only dehydrated* within an insular possession or beneficiary country will receive duty-free treatment only if it meets the applicable local feedstock requirement: (1) no feedstock requirement would be imposed on imports up to a level of 60 million gallons or 7 percent of the domestic ethanol market (as determined by the ITC, based on the 12-month period ending on the preceding September 30), whichever is greater; (2) a local feedstock requirement of 30 percent by *volume* would apply to the next 35 million gallons of imports above the 60 million gallons or 7 percent level described above; and (3) a local feedstock requirement of 50 percent by *volume* would apply to any additional imports.

Ethyl alcohol (or a mixture thereof) that is produced by a process of full fermentation in an insular possession or beneficiary country would continue to be eligible for duty-free treatment in unlimited quantities without regard to feedstock requirements.

Reasons for change

This provision, which was added by the Committee as an amendment to the bill as introduced, represents a compromise worked out among the competing interests involved in this issue. The Committee believes that this compromise, to which all parties have agreed to abide throughout the legislative process in the House and the Senate, is fair.

The provision will allow producers of ethanol in CBI eligible countries to continue operating but will provide an incentive for them to move toward full fermentation of local feedstock in order to continue exporting to the United States. The domestic ethanol industry testified before the Subcommittee on Trade and expressed concern over the prospect that allowing unlimited importation of ethanol which had merely been dehydrated in the Caribbean could prompt a surge of imports produced from cheap European whine or other non-CBI feedstock. Domestic industry representatives noted that the purpose of the CBI legislation was to promote economic growth and job creation in the Caribbean region and argued that the mere dehydration of European wine alcohol provides minimal economic benefit and job creation. They stated that they had no objection to imports of ethanol produced from local CBI feedstock.

Representatives of the Caribbean ethanol producers also testified before the Subcommittee and stated that they would be unable to meet the local feedstock requirements due to take effect on January 1, 1990, and would be forced to close their operations. Their statements were supported by the GAO and the ITC. Both the GAO and ITC reports concluded that given current production costs and prices of feedstock and gasoline, it is not economically feasible for CBI ethanol producers to meet the 75 percent local feedstock requirements.

The Committee believes that the compromise provision strikes an appropriate balance between the needs of the Caribbean nations and the concerns of the domestic industry. It allows a limited amount of ethanol produced from non-CBI feedstock to be imported each year but imposes increasingly stringent local feedstock requirements on Caribbean producers as their shipments to the United States increase. The Committee decided to substitute a feedstock requirement based on volume for one based on value (as contained in current law), because such a requirement is easier to administer and is less subject to abuse. These requirements will serve the purpose of the CBI legislation, which is expand local investment, production, and employment. They also will serve to reassure domestic ethanol producers that their investments will not be threatened by large volumes of imports of Caribbean ethanol produced from non-CBI feedstock.

Section 117. Conforming amendment

Present law

The rules of origin set forth under section 213(a) of the CBERA include the specific requirement that duty-free treatment provided under the CBI applies to an article that is the growth, product, or manufacture of a beneficiary country. Regulations issued by the Secretary of the Treasury must provide that the article be wholly

the growth, product, or manufacture of a beneficiary country or a new or different article of commerce grown, produced, or manufactured (i.e., substantially transformed) in a beneficiary country. The statutory rules of origin for the Generalized System of Preferences program do not specifically include this requirement, but the legislative history of the CBI statute confirms the intent that the same standard apply to GSP and this has been the actual practice.

Explanation of provision

Section 117 represents an Administration proposal added by the Committee as an amendment to H.R. 1233 as introduced as a necessary conforming amendment to the GSP statute. Section 117 amends section 503(b) of the Trade Act of 1974 to insert the requirement in the rules of origin for determining duty-free treatment under the GSP program that an eligible article must be the growth, product, or manufacture of a beneficiary developing country. Regulations issued by the Secretary of the Treasury, after consultation with the U.S. Trade Representative, must provide that, in order to be eiglble for GSP duty-free treatment, an article must be wholly the growth, product, or manufacture of a beneficiary developing country, or must be a new or different article of commerce grown, produced, or manufactured (i.e., substantially transformed) in the beneficiary developing country. These regulations must also prohibit any article or material of a CBI beneficiary country from being eligible for duty-free treatment by having merely undergone simple combining or packaging operations or mere dilution that does not materially alter the characteristics of the article.

Reasons for change

The U.S. Court of International Trade, affirmed by the U.S. Court of Appeals for the Federal Circuit in March 1989, decided that there is no legal requirement under the GSP statute for goods to be the product of a beneficiary developing country in order to be entitled to duty-free treatment under that program. The Court's decision eliminates the need to apply a "substantial transformation" test under the GSP, thereby basing origin for duty-free treatment strictly on the direct importation and value-added requirements. As a result of this decision, the rule of origin requirements for duty-free treatment under the CBI, which do include a statutory substantial transformation test, are now more restrictive than for GSP.

The purpose of the conforming amendment to the GSP statute is to ensure that duty-free treatment under the CBI is not applied more restrictively than under the GSP program and that the GSP rules of origin do not become a loophole for duty-free treatment not intended under the CBI program. The amendment restores the long-standing intent and practice under GSP that duty-free treatment only apply to products of beneficiary developing countries. As a result of the amendment the origin rules and regulations under the two programs would be identical.

TITLE II—SCHOLARSHIP ASSISTANCE AND TOURISM PROMOTION

Section 201. Caribbean-Central American scholarship partnership

Present law

There are currently ten Federal programs that provide scholarship and training assistance to Caribbean Basin countries. The majority of U.S. scholarship programs are short-term, undergraduate or graduate level, and emphasize Central American countries. The Caribbean Scholars Program, which focused on the Caribbean countries and was initiated with the CBI, has since been terminated.

Explanation of provision

The Committee adopted an amendment to H.R. 1233 to add a program of scholarship assistance for the Caribbean region. This provision was developed in cooperation with the House Committee on Foreign Affairs as a matter within its jurisdiction. Section 201 of the bill as amended requires the Administrator of the Agency for International Development (AID) to establish and administer a program of scholarship assistance, in cooperation with State governments, universities, community colleges, and businesses, to enable students from eligible countries (i.e., CBI beneficiary countries that also receive U.S. foreign assistance) to study in the United States. The Administrator may make grants to States (including the District of Columbia, Puerto Rico, and U.S. possessions and territories) to provide scholarship assistance for undergraduate degree programs and for training programs of at least one year in study areas related to the critical development needs of the students' respective countries. The Administrator will also consult with the participating States on the educational opportunities available within each State and on the assignment of scholarship recipients.

With respect to funding of the program, section 201 provides that the Federal share for each year for which a State receives payment will be not less than 50 percent. The Federal share will be funded from amounts otherwise made available for Latin American and Caribbean regional programs under the economic support fund of the Foreign Assistance Act of 1961; no separate funding is authorized under the bill for this purpose. The non-Federal share of payments may be in cash or in-kind. To the maximum extent practicable, each participating State shall enlist private sector assistance to meet the non-Federal share of payments. Wherever appropriate, each participating State will also encourage the private sector to offer internships or other opportunities to student receiving scholarships. The obligation of any recipient to reimburse any or all scholarship assistance shall be forgiven upon the student's prompt return to their home country for at least one year longer than the period spent studying in the United States with scholarship assistance.

Reasons for change

In order to fully utilize the trade and tax incentives of the CBI and to sustain economic development in the region, it is essential that the Caribbean Basin countries possess educated and skilled workforces. They must possess workforces skilled in areas which are critical to the economic development needs of the region, such as agriculture, education, public and small business administration, health and safety, engineering, and tourism. The scholarship assistance program would expand training and education opportunities for Caribbean Basin students in these critical areas.

None of the existing Federal scholarship and training assistance programs specifically targets the longer-term education and training needs of the region. Of particular additional importance is the need to counter the influence of the 10,000–14,000 long-term scholarships that the Soviet Union and Cuba provide to students from the Caribbean Basin.

Funding for the program is based on the Federal/State/private sector partnership formula contained in a scholarship program authorized by the 1988 Foreign Assistance Act and in S. 851, the Caribbean-Central American Scholarship Partnership Act, introduced by Senator Bob Graham (D., Fla.) and included in fiscal year 1989 Foreign Operations appropriations legislation. That legislation authorized a $2 million pilot scholarship program, which is currently being implemented by the AID. At a time when Federal dollars are scarce, the scholarship assistance program authorized under section 202 of the bill leverages the Federal commitment with funds and resources provided by States and the private sector to further the goal of scholarship diplomacy and sustainable development assistance in the Caribbean region.

Section 202. Promotion of tourism

Present law

No provision.

Explanation of provision

The Committee adopted amendments to add provisions to H.R. 1233 concerning the further promotion of tourism in the Caribbean Basin region. These amendments were developed in consultation with the House Committee on Foreign Affairs as matters within its jurisdiction.

Section 202(a) makes a Congressional finding that the tourism industry must be recognized as a central element in the economic development and political stability of the Caribbean Basin. Section 202(b) expresses the sense of the Congress that increased tourism should be developed in the region as a central part of CBI legislation, and that a high priority should be assigned by U.S. Government agencies to projects that promote the tourism industry in the Caribbean.

Section 202(c) states that the Secretary of Commerce should complete a study on tourism development strategies for the Caribbean Basin. The study should include information on the mutual benefits to the U.S. and Caribbean economies as a result of tourism in

the region and proposals for developing increased linkages between the tourism industry and local industries such as agrobusiness.

Reasons for change

The tourism sector is the largest employer and foreign exchange earner in the Caribbean Basin. Consequently, CBI legislation should address the importance of this sector and the value of further promoting tourism in the region. The U.S. Travel and Tourism Administration (USTTA) has many resources and the expertise to provide sorely needed marketing and technical assistance to the region. However, a provision in the Continuing Resolution for fiscal year 1987 effectively barred the USTTA from providing policy studies and technical assistance to CBI beneficiary countries by specifying that funding available to the USTTA was not to be used for policy studies or technical assistance to promote travel to any destination other than the United States and its possessions. While this restriction applied only to fiscal year 1987 funding, it did send a signal conflicting with the objective of promoting tourism development in the Caribbean. A 1988 report of the General Accounting Office on the CBI also indicated that, "since funding for tourism related activities must compete with other priority projects, some missions were reluctant to propose projects because of the perception that tourism was not supported as an appropriate sector for AID funding and the lack of guidance from AID/Washington".

The intent of the sense of Congress provision is to remove the reluctance of government agencies, such as AID, to accord tourism projects priority status among economic development activities. The purpose of the second amendment to the bill is to provide direction for the USTTA to complete the study on tourism development strategies for the Caribbean region that it began in 1986, but did not complete because of the restriction in the 1987 Continuing Resolution.

Section 203. Pilot preclearance program

Present law

Customs preclearance operations currently exist only in Canada, Bermuda, and the Bahamas.

Explanation of provision

Section 203 of H.R. 1233 requires the Commissioner of Customs to carry out preclearance operations during fiscal years 1990 and 1991 at a U.S. Customs Service facility in a Caribbean Basin country which the Commissioner considers appropriate for testing the extent to which the availability of preclearance operations can assist in the development of tourism. The country selected cannot be a site of current preclearance operations and U.S. immigration preinspection operations must be currently carried out in that country.

Before preclearance operations may begin in the country selected for testing, the Commissioner of Customs and the Commissioner of Immigration and Naturalization must jointly certify that (1) a bilateral government agreement exists between the United States and the country which protects U.S. interests and affords diplomat-

ic protection to U.S. employees working at the preclearance location; (2) the facilities at the preclearance location are suitable and conform to Federal Inspection Services standards; (3) there is adequate security for international arrivals; (4) the government of the country grants the U.S. Customs and Immigration and Naturalization Services appropriate search, seizure, and arrest authorities; and (5) U.S. employees and their families will not be subject to fear of reprisal, acts of terrorism, and threats of intimidation.

The Commissioner of Customs must submit a report to the Congress as soon as practicable after September 30, 1991 regarding the pilot preclearance program, including a summary of the operations, an evaluation of the extent preclearance stimulated tourism in the country and expedited customs processing at U.S. ports of entry, and the efficacy of extending preclearance operations to other Caribbean countries.

Reasons for change

Existing preclearance facilities have been helpful in expediting passenger flow and reducing congestion in U.S. ports, and have facilitated tourism in the United States and abroad. Tourism is an important catalyst for economic growth in the Caribbean region. Establishment of a pilot program will provide statistical evidence for the U.S. Customs Service to examine the feasibility and desirability of expanding preclearance operations throughout the Caribbean. The program will also provide a test of how important this particular measure is in overcoming obstacles and delays to tourism in the region.

Vote of the Committee in Reporting the Bill

In compliance with clause 2(l)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote of the Committee in reporting the bill: H.R. 1233 was ordered favorably reported by the Committee on Ways and Means by voice vote with amendments.

Oversight Findings

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives relating to oversight findings, the Committee has concluded, from the year-long investigation by the Subcommittee on Oversight through hearings and a fact-finding mission to the region of the operation and effectiveness of the current CBI program, hearing testimony and written comments received by the Subcommittee on Trade, and extensive consultations by Committee Members and trade staff with Administration officials, representatives of major U.S. domestic industries affected, and with representatives of the CBI beneficiary countries, that the improvements to the program provided in H.R. 1233, as amended, are necessary to more adequately address the critical economic development needs of the Caribbean Basin. The Committee believes the amended bill also strikes an appropriate balance between the needs of this region and the economic interests of competing U.S. industries and labor.

With respect to clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings or recommendations have been submitted to the Committee by the Committee on Government Operations with respect to the subject matter contained in the bill.

Budgetary Authority and Cost Estimates, Including Estimates of the Congressional Budget Office

In compliance with clause 7(a) of rule XIII and with clause 2(l)(3)(B) of rule XI of the Rules of the House of Representatives, the Committee states that H.R. 1233, as amended, does not provide any new budget authority or any new or increased tax expenditures. The Committee states that there are no tax expenditures or new budgetary authority providing financial assistance to State and local governments in the bill.

In compliance with clause 7(a) of rule XIII and with clauses 2(l)(3)(B) and (C) of rule XI of the Rules of the House of Representatives, the Committee agrees with the cost estimates furnished by the Congressional Budget Office on H.R. 1233, as amended, and required to be included herein:

U.S. Congress,
Congressional Budget Office,
Washington, DC, July 10, 1989.

Hon. Dan Rostenkowski,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

Dear Mr. Chairman: This letter responds to your request that the Congressional Budget Office review the budget effects of H.R. 1233, a bill to improve the operation of the Caribbean Basin Economic Recovery Act, as ordered reported by the Committee on Ways and Means on June 21, 1989. CBO has coordinated with the International Trade Commission and the Customs Service in estimating the budget effects of this bill. The budget estimates are shown on the table below.

BUDGET EFFECTS OF H.R. 1233

[By fiscal year, in millions of dollars]

	1990	1991	1992	1993	1994
Estimated revenues	−30	−34	−39	−12	−2
Estimated authorization level	1	1	0	0	0
Estimated outlays	1	1	0	0	0
Net deficit effect	31	35	39	12	2

This bill would repeal the current expiration date of September 30, 1995, for duty-free treatment of eligible imports from Caribbean Basin Initiative (CBI) beneficiary countries. Permanent duty-free treatment of these imports would be established. This change would have no budgetary effect during the projection period.

The duty-free allowance for U.S. residents returning from CBI beneficiary countries would be raised from $400 to $600 and from $800 to $1200 for residents returning from insular possessions.

Residents returning from the Caribbean would also be able to bring 1 additional liter of alcohol into the U.S. duty free, if it is produced in a CBI country. Current law provides a duty-free allowance for one liter of alcohol. Information necessary to estimate these provisions is not available.

H.R. 1233 also provides for duty-free treatment of textiles and apparel entering the United States from the Caribbean under guaranteed access level agreements (GALs). Currently, the value of any U.S.-produced fabric entering under these agreements is exempt from duty. This bill would exempt the entire value of the imported article from duty. There are currently such agreements between the United States and five Caribbean countries: the Dominican Republic, Jamaica, Trinidad and Tobago, Haiti and Costa Rica. The CBO estimates that providing duty-free treatment for all textile and apparel imports coming in under these five agreements would result in a revenue decrease of $12 million in fiscal year 1990, with larger revenue losses of $15 million in 1991 and $19 million in 1992. These estimates take into account the fact that the agreements between the United States and Haiti and the United States and Trinidad and Tobago expire at the end of 1989, and that on December 31, 1992, the agreements signed with Costa Rica, the Dominican Republic and Jamaica will expire. If these agreements are extended, then revenue losses could be as high as $37 million by fiscal year 1994. This provision requires the U.S. Trade Representative to establish GALs with each of the CBI countries. Because the level of trade that would be established under these GALs is unspecified, CBO cannot determine the resulting revenue effect. Additionally, the bill extends duty-free treatment under GAL agreements to imports of textile products assembled in the Caribbean from any of eight foreign-produced fabrics if the fabric is cut in the U.S. No information is available with which to estimate this provision.

Certain textiles and textile products from CBI countries enter the United States under bilaterally negotiated import quotas. H.R. 1233 would reduce the duties collected on imports of these products from the Caribbean under any existing or future quota. The Secretary of Commerce would determine the present weighted average tariff rate for each quota category. Articles entering from CBI countries under each category would be subject to the lesser of their current duty rate or one-half the calculated average tariff rate for the category as a whole. CBO estimates that if, on average, total duties levied on imports entering the U.S. under existing bilateral agreements are reduced by 50 percent, the resulting revenue loss will be $17 million in fiscal year 1990. Because these agreements are scheduled to expire the revenue loss drops to $5 million in 1993 and zero in 1994. If the agreements are extended, annual revenue losses could be as high as $21 million in 1994. Budget effects of quotas negotiated in the future cannot be estimated.

This bill would provide duty-free treatment to articles of 100 percent U.S. content that are assembled in CBI beneficiary countries. Information necessary to estimate this provision is not available. It would also reduce by 50 percent the existing rates of duty on certain items, such as handbags, non-leather footwear and luggage.

CBO estimates the resulting revenue loss from this provision to be $1 million in 1990 and $2 million each year after that.

This bill sets a lower limit of 371,449 tons per year on the quota for sugar imports from CBI beneficiary countries. If other countries exported less than their allotted quotas to the United States, then the unused amount would be reallocated among the CBI countries. We estimate that this provision would result in no revenue effect because the amount of duties on sugar currently collected from all countries is insignificant.

H.R. 1233 would amend current tariff treatment of ethanol distilled in the Caribbean. Under present law, ethanol may enter the U.S. duty free during fiscal years 1988 and 1989 regardless of its composition, but it would be subject to a Caribbean-raw-materials requirement in 1990 in order to maintain duty-free treatment. Under H.R. 1233, 7 percent of U.S. comsumption of ethanol, or 60 million gallons, whichever is greater, could be imported into the United States duty free without containing raw materials grown in the Caribbean. An additional 35 million gallons of ethanol could be imported duty free if it contains 30 percent Caribbean raw materials. Any ethanol containing at least 50 percent Caribbean raw materials would be exempt from U.S. tariffs. Because imports of ethanol from the Caribbean are expected to be much lower than the duty-free limit, CBO estimates that this provision would have no revenue effect.

Section 201 of the bill authorizes the federal government to make matching grants to states for scholarships to students from Central American and Caribbean countries. The federal share is to be no less than 50 percent of the scholarship, and shall be funded from amounts otherwise made available for Latin America and Caribbean regional programs under the economic support fund of the Foreign Assistance Act of 1961. The scholarship assistance program is to be administered by the Agency for International Development. The bill encourages but does not require state participation, and so does not impose additional costs to state or local governments.

Additionally, H.R. 1233 would separate CBI imports from the cumulation requirements under existing law for determining injury in countervailing duty and anti-dumping cases. This has no direct budget effects. The bill would also set up a pilot preclearance program in a Caribbean Basin country during fiscal years 1990 and 1991 for testing the extent to which clearance programs can assist the development of tourism. We estimate that this would cost $1 million in each of fiscal years 1990 and 1991, subject to the availability of appropriations. As soon as possible after the end of fiscal year 1991, the Commissioner of Customs would be required to submit a report on the program to the Congress.

If you have any questions regarding these estimates, please contact me or your staff may wish to contact Caroline Ratcliffe at 226–2720 of the Tax Analysis Division.

Sincerely,

ROBERT D. REISCHAUER,
Director.

INFLATIONARY IMPACT

With respect to clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee states that H.R. 1233, as amended, would not have an inflationary impact on prices and costs in the operation of the general economy.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

CARIBBEAN BASIN ECONOMIC RECOVERY ACT

(TITLE II OF PUBLIC LAW 98-67)

* * * * * * *

SEC. 212. BENEFICIARY COUNTRY.

(a) * * *

(b) In designating countries as "beneficiary countries" under this title the President shall consider only the following countries and territories or successor political entities:

Anguilla
Antigua and Barbuda
Bahamas, The
Barbados
Belize
Cayman Islands
Costa Rica
Dominica
Dominican Republic
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Montserrat
Netherlands Antilles
Nicaragua
Panama
Saint Lucia
Saint Vincent and the Grenadines
Suriname
Trinidad and Tobago
San Christopher-Nevis
Turks and Caicos Islands
Virgin Islands, British

In addition, the President shall not designate any country a beneficiary country under this title—

(1) * * *

* * * * * * *

(5) if a government-owned entity in such country engages in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent; [and]

(6) unless such country is a signatory to a treaty, convention, protocol, or other agreement regarding the extradition of United States Citizens[.] *; and*

(7) if such country has not or is not taking steps to afford internationally recognized worker rights (as defined in section 502(a)(4) of the Trade Act of 1974) to workers in the country (including any designated zone in that country).

Paragraphs (1), (2), (3), [and (5)] *(5); and (7)* shall not prevent the designation of any country as a beneficiary country under this Act

if the President determines that such designation will be in the national economic or security interest of the United States and reports such determination to the Congress with his reasons therefor.

(c) In determining whether to designate any country a beneficiary country under this title, the President shall take into account—

(1) * * *

* * * * * * *

[(8) the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively;]

(8) whether or not such country has taken or is taking steps to afford to workers in that country (including any designated zone in that country) internationally recognized worker rights.

* * * * * * *

(e)(1) * * *

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(3) Not later than January 4, 1991 and biennially thereafter, the President shall conduct a general review of eligible countries based on the considerations described in subsections (b) and (c).

(f) On or before October 1, 1992, and the close of each 3-year period thereafter, the President shall submit to the Congress a complete report regarding the operation of this title.

SEC. 213. ELIGIBLE ARTICLES.

(a) * * *

[(b) The duty-free treatment provided under this title shall not apply to—

[(1) textile and apparel articles which are subject to textile agreements;

[(2) footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not designated at the time of the effective date of this title as eligible articles for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

[(3) tuna, prepared or preserved in any manner, in airtight containers;

[(4) petroleum, or any product derived from petroleum, provided for in headings 2709 and 2710 of the Harmonized Tariff Schedule of the United States; or

[(5) watches and watch parts (including cases, bracelets, and straps), of whatever type including, but not limited to, mechanical, quartz digital or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which HTS column 2 rates of duty apply.]

(b) The duty-free treatment provided under this subtitle does not apply to—

(1) textile and apparel articles which are subject to textile agreements, except to the extent provided for in section 213A(a);

(2) articles to which reduced duties apply under section 213A (b) and (c);

(3) leather footwear not designated on August 5, 1983, as eligible articles for purposes of the generalized system of preferences under title V of the Trade Act of 1974;

(4) tuna, prepared or preserved in any manner, in airtight containers;

(5) petroleum, or any product derived from petroleum, provided for in headings 2709 and 2710 of the HTS; and

(6) watches and watch parts (including cases, bracelets, and straps), of whatever type including, but not limited to, mechanical, quartz digital or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which column 2 rates of duty under the HTS apply.

* * * * * * *

SEC. 213A. ARTICLES ELIGIBLE FOR LIMITED DUTY-FREE TREATMENT OR DUTY REDUCTION.

(a) Textile Products Subject to Guaranteed Access Levels.—

(1) DEFINITIONS.—As used in this subsection—

(A) The term "qualifying fabric" means—

(i) fabric that is formed and cut in the United States; and

(ii) foreign fabric that is cut in the United States.

(B) The term "foreign fabric" means the following articles provided for under the headings or subheadings (as appropriate) of the HTS specified parenthetically:

(i) Broadwoven fabrics containing 85 percent or more by weight of silk, weighing more than 100 grams per square meter (5007.10.30, 5007.20.00 and 5007.90.30).

(ii) Velveteen fabric, 85 percent or more by weight of cotton (5801.23.00).

(iii) Corduroy fabric, 85 percent or more by weight of cotton, containing more than 7.5 wales per centimeter (5801.22.00).

(iv) Broadwoven fabrics of cotton of average yarn number greater than 135 metric count (5208.21.60, 5208.22.80, 5208.29.80, 5208.31.80, 5208.32.50, 5208.39.80, 5208.41.80, 5208.42.50, 5208.49.80, 5208.51.80, 5208.52.50 and 5208.59.80).

(v) Circular knit fabrics of cotton of average yarn number greater than 100 metric count (6002.92.00).

(vi) Broadwoven fabric, 85 percent or more by weight of wool, certified as being genuine Harris Tweed (5111.19.20 and 5111.19.60).

(vii) Broadwoven fabric 85 percent or more by weight of continuous synthetic yarn of polyester, weighing not more than 100 grams per square meter, containing more than 145 threads per square centimeter (5407.71.00, 5407.72.00, 5407.73.20, and 5407.74.00).

(viii) Broadwoven fabric of combed wool or fine combed animal hair, of wool and not less than 20 percent combed fine animal hair, mixed mainly or solely with man-made fibers, weighing not more than 340 grams per square meter (5112.30.00).

(2) GUARANTEED MARKET ACCESS AND DUTY-FREE TREATMENT FOR CERTAIN TEXTILE PRODUCTS.—

(A) The United States Trade Representative—

(i) shall establish with each beneficiary country guaranteed access levels for textile products assembled in that country from qualifying fabrics; and

(ii) is authorized to negotiate and conclude a bilateral agreement with each such country regarding the guaranteed access levels established under clause (i).

(B) Textile products entered pursuant to a bilateral agreement provided for under subparagraph (A) shall be accorded duty-free treatment.

(3) PERMISSIBLE FOREIGN CONTENT.—A textile product that is assembled in a beneficiary country from qualifying fabric and incorporates findings and trimmings of foreign origin is eligible for guaranteed access and duty-free treatment under an agreement entered into under paragraph (2)(A) if such foreign findings and trimmings do not exceed 25 percent of the cost of the components of the assembled product.

(4) REQUIREMENTS AND PROCEDURES.—The Committee for Implementation of Textile Agreements established under Executive Order No. 11651, dated March 3, 1972, shall establish such requirements and procedures as may be necessary or appropriate to implement the obligations of the United States under agreements entered into under paragraph (2)(A).

(5) EXISTING AGREEMENTS.—Any bilateral agreement that—

(A) was entered into between the United States and a beneficiary country under the Special Access Program, announced on February 20, 1986, for textile products under the aegis of the Caribbean Basin Initiative; and

(B) is in effect on the date of the enactment of this section;

shall be treated as being a valid agreement that was entered into under paragraph (2)(A).

(6) SENSE OF CONGRESS.—It is the sense of Congress that—

(A) the benefits granted through the establishment of guaranteed access levels in bilateral textile agreements should not result in any disadvantage to United States firms that seek export certificates or export visas which authorize shipments under specific limits; and

(B) the United States Trade Representative should obtain assurances from beneficiary countries which have been granted guaranteed access levels that such countries will administer export certificates or export visas in such a manner as to ensure fairness and nondiscriminatory treatment to United States firms that seek allocations under specific limits rather than guaranteed access levels.

(b) TEXTILE AND APPAREL ARTICLES SUBJECT TO SPECIFIC LIMITS AND DESIGNATED CONSULTATION LEVELS.—

(1) DEFINITIONS.—As used in this subsection—

(A) The term "quota article" means any textile or apparel article that may be imported into the United States under either a specific limit or a designated consultation level established in a bilateral textile agreement between the

United States and a beneficiary country that is in force and effect on, or enters into force and effect after, the date of the enactment of this section.

(B) The term "textile category" means any category established in the publication entitled "Correlation: Textile and Apparel Categories with the Harmonized Tariff Schedule of the United States Annotated, 1989", prepared by the Department of Commerce.

(C) The term "trade-weighted average duty rate" means the rate of duty determined by the Secretary under paragraph (3).

(2) DUTY ON QUOTA ARTICLES.—

(A) Except as provided in subparagraph (B), each quota article that is entered shall be dutiable at a rate equal to 50 percent of the trade-weighted average duty rate for the textile category under which the quota article is classified.

(B) The rate of duty provided for under subparagraph (A) for any article that is a quota article shall not apply if that rate is higher than the rate of duty provided for that article in general column 1 of the HTS.

(3) TRADE-WEIGHTED AVERAGE DUTY RATE DETERMINATIONS.—For each textile category under which one or more kinds of quota articles are classified, the Secretary shall determine the trade-weighted average of the general column 1 rates of duty under the HTS for all classes or kinds of goods included within that category. The Secretary shall calculate the trade-weighted average duty rate under this paragraph for each textile category on the basis of the best information available for the most recent 12-month period occurring before the date of the enactment of this section.

(c) FOOTWEAR AND LEATHER-RELATED PRODUCTS.—The rate of duty on any footwear (other than leather footwear), handbag, luggage, flat good, work glove, or leather wearing apparel that—

(1) is a product of a beneficiary country; and

(2) was not designated on August 5, 1983, as an eligible article for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

is a rate equal to 50 percent of the general column 1 rate of duty under the HTS that would apply to such article but for this subsection.

(d) ADMINISTRATION.—

(1) PROCLAIMING OF RATES.—The President shall proclaim the rates of duty imposed under subsection (b)(2)(A) and subsection (c).

(2) CONSTRUCTION.—The duty applied under subsection (b)(2)(A) or subsection (c) to an article is in lieu of the duty provided for that article under general column 1 of the HTS.

(3) DEFINITION OF SECRETARY.—For purposes of this section, the term "Secretary" means the Secretary of Commerce.

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[SEC. 218. EFFECTIVE DATE OF SUBTITLE AND TERMINATION OF DUTY-FREE TREATMENT.

[(a) EFFECTIVE DATE.—This subtitle shall take effect on the date of the enactment of this Act.

[(b) TERMINATION OF DUTY-FREE TREATMENT.—No duty-free treatment extended to beneficiary countries under this subtitle shall remain in effect after September 30, 1995.]

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HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES

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SECTION IV.—PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES

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Chapter 17.—Sugars and Sugar Confectionary

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Additional U.S. notes

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3. (a) * * *

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(c)(i) The total amounts of sugars, syrups and molasses permitted to be imported under paragraphs (a) and (b) of this note shall be allocated as follows (in percent) to the supplying countries or areas listed below:

Country	Percentage distribution	Country	Percentage distribution
1. Canada	1.1	18. Philippines	15.8
2. Guatemala	4.8	19. Taiwan	1.2
3. Belize	1.1	20. Australia	8.3
4. El Salvador	2.6	21. Mauritius	1.1
5. Honduras	1.0	22. Mozambique	1.3
6. Nicaragua	2.1	23. Swaziland	1.6
7. Costa Rica	1.5	24. Barbados	.7
8. Panama	2.9	25. Trinidad-Tobago	.7
9. Jamaica	1.1	26. Bolivia	.8
10. Dominican Republic	17.6	27. India	.8
11. Colombia	2.4	28. Fiji	.7
12. Guyana	1.2	29. Malawi	.7
13. Ecuador	1.1	30. Zimbabwe	1.2
14. Peru	4.1	31. Other specified countries and areas.	.3
15. Brazil	14.5		
16. Argentina	4.3		
17. Thailand	1.4		

NOTE 1: The category "Other specified countries and areas" shall consist of the following: Mexico, Haiti, Paraguay, Saint Christo-

pher-Nevis, Malagasy Republic, the Ivory Coast, Congo and Uruguay.

NOTE 2: Beginning with the quota year beginning September 26, 1983, the quota allocations for Nicaragua, Costa Rica, El Salvador and Honduras shall be as follows:

Nicaragua	5,443 metric tons, raw value.
El Salvador	2.6 percent of the total base quota amount permitted to be imported under paragraphs (a) and (b) of this legal note plus 18 percent of the difference between 2.1 percent of the total base quota amount and 5,443 metric tons, raw value.
Honduras	1 percent of the total base quota amount plus 52 percent of the difference between 2.1 percent of the total base quota amount and 5,443 metric tons, raw value.
Costa Rica	1.5 percent of the total base quota amount plus 30 percent of the difference between 2.1 percent of the total base quota amount and 5,443 metric tons, raw value.

Notwithstanding the allocation provisions set forth above, the Secretary may, after consultation with the United States Trade Representative, the Department of State and the Department of the Treasury, issue regulations modifying the allocation provisions governing "Other specified countries and areas" if the Secretary determines that such modifications are appropriate to provide such countries and areas reasonable access to the U.S. sugar market. Such regulations may, among other things, provide for the establishment of minimum quota amounts, the establishment of quota periods other than quarterly periods, and the carrying forward of unused quota amounts into subsequent quota periods.

NOTE 3: The Secretary shall determine whether any country is not utilizing fully the base quota amount allocated to it for a quota year and any amount determined to be unused during such year shall be reallocated on a pro rata basis among the countries listed in general note 3(c)(v) (hereinafter in this paragraph referred to as the "CBI countries") receiving base quota allocations for such year. The unused quota amount reallocated to any CBI country under this note for any quota year is in addition to any reallocation made under subparagraph (iv) to that country for such year. No portion of any reallocation made to a CBI country for a quota year under this note or subparagraph (iv) that is unused at the close of such year is available for use in any other quota year.

* * * * * * *

[(iii) Notwithstanding any authority given to the United States Trade Representative under paragraphs (e) and (g) of this note, in allocating any limitation imposed under any paragraph of this note on the quantity of sugars, syrups, and molasses described in the subheadings cited under paragraph (a) of this note which may be entered—

[(A) the percentage allocation made to the Phillipines under this paragraph may not be reduced, and

[(B) no allocation may be made to the Republic of South Africa.]

(iii) Notwithstanding any authority given to the United States Trade Representative under paragraphs (e) and (g) of this note, in allocating any limitation imposed under any paragraph of this note on the quantity of sugars, syrups, and molasses described in the subheadings cited under paragraph (a) of this note which may be entered—

(A) the percentage allocation made to the Philippines under this paragraph may not be reduced,

(B) no allocation may be made to the Republic of South Africa, and

(C) the aggregate of the amounts of the base quota allocations to the CBI countries for any quota year beginning after December 31, 1988, may not be less than 371,449 metric tons, raw value.

(iv) If under law authorizing such an action for purposes of dealing with a threat to the national security or foreign policy of the United States, the allocation under subparagraph (i) for any quota year is suspended or terminated with respect to any country, the amount of the suspended or terminated allocation shall be reallocated on a pro-rata basis among the CBI countries receiving allocations for that year. Any quota amount reallocated to any CBI country under this subparagraph for any quota year is in addition to any reallocation made under note 3 of subparagraph (i) to that country for such year.

(v) The President may enter into trade agreements with foreign governments for purposes of granting appropriate compensation, and may proclaim such compensation, if any action taken by the United States under the authority of note 3 of subparagraph (i), subparagraph (iii)(C), or subparagraph (iv) is found to be inconsistent with the international obligations of the United States (including the General Agreement on Tariffs and Trade). Before offering compensation under this subparagraph, the President shall consult with the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate regarding the reasons for taking the action concerned and the compenstation proposed to be offered.

* * * * * * *

SECTION XXII.—SPECIAL CLASSIFICATION PROVISIONS; TEMPORARY LEGISLATION; TEMPORARY MODIFICATIONS ESTABLISHED PURSUANT TO TRADE LEGISLATION; ADDITIONAL IMPORT RESTRICTIONS ESTABLISHED PURSUANT TO SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT, AS AMENDED

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Chapter 98.— Special Classification Provisions

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Subchapter II.—Articles exported and returned, advanced or improved abroad

U.S. notes

1. * * *

[*2. Any*] *2. (a) Except as provided in paragraph (b), any* product of the United States which is returned after having been advanced in value or improved in condition abroad by any process of manufacture or other means, or any imported article which has been assembled abroad in whole or in part of products of the United States, shall be treated for the purposes of this Act as a foreign article, and, if subject to a duty which is wholly or partly ad valorem, shall be dutiable, except as otherwise prescribed in this part, on its full value determined in accordance with section 402 of the Tariff Act of 1930, as amended. If such product or such article is dutiable at a rate dependent upon its value, the value for the purpose of determining the rate shall be its full value under the said section 402.

(b) No article (except a textile or apparel article) may be treated for purposes of this Act as a foreign article, or as subject to duty, if—

(i) the article is—

(A) assembled in whole of fabricated components that are a product of the United States, or

(B) processed in whole of ingredients (other than water) that are a product of the United States, in a beneficiary country; and

(ii) neither the fabricated components or ingredients, after exportation from the United States, nor the article itself, before importation into the United States, enters the commerce of any foreign country other than a beneficiary country.

As used in this paragraph, the term "beneficiary country" means a country listed in general note 3(c)(V)(A).

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Subchapter IV.—Personal exemptions extended to residents and nonresidents

U.S. notes

1. * * *

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4. As used in subheadings 9804.00.70 and 9804.00.72, the term "beneficiary country" means a country listed in general note 3(c)(v)(A).

9804.00.05	Articles imported by or for the account of any person arriving in the United States from a foreign country:		
	Books, libraries, usual and reasonable furniture and similar household effects, if actually used abroad by him or by him and his family not less than one year, and not intended for any other person, or for sale	Free	Free

* * * * * * *

	Articles imported by or for the account of any person arriving in the United States who is a returning resident thereof (including American citizens who are residents of American Samoa, Guam or the Virgin Islands of the United States (con.):			
	Other articles acquired abroad as an incident of the journey from which the person is returning if such person arrives from the Virgin Islands of the United States or from a contiguous country which maintains a free zone or free port, or arrives from any other country after having remained beyond the United States for a period of not less than 48 hours, for his personal or household use, but not imported for the account of any other person nor intended for sale, if declared in accordance with regulations of the Secretary of the Treasury and if such person has not claimed an exemption under [subheading 9804.00.65 or 9804.00.70 within 30 days preceding his arrival, and does not claim an exemption under the other item on his arrival:] *subheadings 9804.00.65, 9804.00.70, and 9804.00.72 within 30 days preceding his arrival, and claims exemption under only one of such items on his arrival.*			
9804.00.65	Articles accompanying a person, not over $400 in aggregate fair retail value in the country of acquisition, including (but only in the case of an individual who has attained the age of 21) not more than 1 liter of alcoholic beverages and including not more than 200 cigarettes and 100 cigars		Free	Free

9804.00.70	Articles whether or not accompanying a person, ot over [$800] *$1,200* in aggregate fair market value in the country of acquisition, including: (a) but only in the case of an individual who has attained the age of 21, not more than 5 liters of alcoholic beverages, not more than 1 liter of which shall have been acquired elsewhere than in American Samoa, Guam or the Virgin Islands of the United States, and not more than 4 liters of which shall have been produced elsewhere than in such insular possessions, and (b) not more than 1,000 cigarettes, not more than 200 of which shall have been acquired elsewhere than in such insular possessions, and not more than 100 cigars, If such person arrives directly or indirectly from such insular possessions, not more than $400 of which shall have been acquired elsewhere than in such insular possessions *or up to $600 of which have been acquired in one or more beneficiary countries* (but this subheading does not permit the entry of articles not accompanying a person which were acquired elsewhere than in such insular possessions)	Free	Free

9804.00.72	*Articles whether or not accompanying a person, not over $600 in aggregate fair market value in the country of acquisition, including.* *(a) but only in the case of an individual who has attained the age of 21, not more than 1 liter of alcoholic beverages or not more than 2 liters if at least one liter is the product of one or more beneficiary countries, and* *(b) not more than 200 cigarettes, and not more than 100 cigars* *if such person arrives directly from a beneficiary country, not more than $400 of which shall have been acquired elsewhere than in beneficiary countries (but this item does not permit the entry of articles not accompanying a person which were acquired elsewhere than in beneficiary countries*	Free	*Free*

* * * \

(I) IN GENERAL.—For purposes of clauses (i) and (ii) and subject to subclause (II), the Commission shall cumulatively assess the volume and effect of imports from two or more countries of like products subject to investigation if such imports compete with each other and with like products of the domestic industry in the United States market.

(II) CBI EXCEPTION.—When the imports subject to investigation are products of a country designated as a beneficiary country under the Caribbean Basin Economic Recovery Act (19 U.S.C. 2701 et seq.), the volume and effect of imports from such country may only be cumulatively assessed with imports of like products from one or more other countries designated as beneficiary countries.

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(F) THREATS OF MATERIAL INJURY.—

(i) * * *

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(iv) CUMULATION.—To the extent practicable and subject to subparagraph [(C)(v),] *(C)(iv)(II) and (v),* for purposes of clause (i) (III) and (IV) the Commission may cumulatively assess the volume and price effects of imports from two or more countries if such imports—

(I) compete with each other, and with like products of the domestic industry, in the United States market, and

(II) are subject to any investigation under section 303, 701, or 731.

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SECTION 423 OF THE TAX REFORM ACT OF 1986

SEC. 423. ETHYL ALCOHOL AND MIXTURES THEREOF FOR FUEL USE.

(a) * * *

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(c) DEFINITIONS.—For purposes of this section—

(1) The term "ethyl alcohol or a mixture thereof" means (except for purposes of subsection (e)) ethyl alcohol or any mixture thereof described in item 901.50 of the Appendix to the Tariff Schedules of the United States.

[(2) Ethyl alcohol or a mixture thereof may be treated as being an indigenous product of an insular possession or beneficiary country only if the ethyl alcohol or a mixture thereof—

[(A) has been both dehydrated and produced by a process of full-scale fermentation within that insular possession or beneficiary country; or

[(B) has been dehydrated within that insular possession or beneficiary country from hydrous ethyl alcohol that includes hydrous ethyl alcohol which is wholly the product

or manufacture of any insular possession or beneficiary country and which has a value not less than—

[(i) 30 percent of the value of the ethyl alcohol or mixture, if entered during calendar year 1987, except that this clause shall not apply to any ethyl alcohol or mixutre which has been dehydrated in the United States Virgin Islands by a facility with respect to which—

[(I) the owner has entered into a binding contract for the engineering and design of full-scale fermentation capacity, and

[(II) authorization for operation of a full-scale fermentation facility has been granted by the Island authorities before May 1, 1986,

[(ii) 60 percent of the value of the ethyl alcohol or mixture, if entered during calendar year 1988, and

[(iii) 75 percent of the value of the ethyl alcohol or mixture, if entered after December 31, 1988.]

(2) Ethyl alcohol or a mixture thereof that is produced by a process of full fermentation in an insular possession or beneficiary country shall be treated as being an indigenous product of that possession or country.

(3)(A) Ethyl alcohol and mixtures thereof that are only dehydrated within an insular possession or beneficiary country (hereinafter in this paragraph referred to as "dehydrated alcohol and mixtures") shall be treated as being indigenous products of that possession or country only if the alcohol or mixture, when entered, meets the applicable local feedstock requirement.

(B) The local feedstock requirement with respect to any calendar year is—

(i) 0 percent with respect to the base quantity of dehydrated alcohol and mixtures that is entered;

(ii) 30 percent with respect to the 35,000,000 gallons of dehydrated alcohol and mixtures next entered after the base quantity; and

(iii) 50 percent with respect to all dehydrated alcohol and mixtures entered after the amount specified in clause (ii) is entered.

(C) For purposes of this paragraph:

(i) The term "base quantity" means, with respect to dehydrated alcohol and mixtures entered during any calendar year, the greater of—

(I) 60,000,000 gallons; or

(II) an amount (expressed in gallons) equal to 7 percent of the United States domestic market for ethyl alcohol, as determined by the United States International Trade Commission, during the 12-month period ending on the preceding September 30;

that is first entered during that calender year.

(ii) The term "local feedstock" means hydrous ethyl alcohol which is wholly produced or manufactured in any insular possession or beneficiary country.

(iii) The term "local feedstock requirement" means the minimum percent, by volume, of local feedstock that must be included in dehydrated alcohol and mixtures.

[(3)](4) The term "beneficiary country" has the meaning given to such term under section 212 of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702).

[(4)](5) The term "United States person" has the meaning given to such term by section 7701(a)(3) of the Internal Revenue Code of 1986.

[(5)](6) The term "entered" means entered, or withdrawn from warehouse, for consumption in the customs territory of the United States.

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SECTION 503 OF THE TRADE ACT OF 1974

Sec. 503. ELIGIBLE ARTICLES

(a) * * *

[(b) The duty-free treatment provided under section 501 with respect to any eligible article shall apply only—

[(1) to an article which is imported directly from a beneficiary developing country into the customs territory of the United States; and

[(2) if the sum (A) the cost or value of the material produced in the beneficiary developing country or any 2 or more countries which are members of the same association of countries which is treated as one country under section 502(a)(3), plus (B) the direct costs of processing operations performed in such beneficiary developing countries or such member countries is not less than 35 percent of the appraised value of such article at the time of its entry into the customs territory of the United States.

The Secretary of the Treasury, after consulting with the United States Trade Representative shall prescribe such regulations as may be necessary to carry out this subsection.]

(b)(1) The duty free treatment provided under section 501 shall apply to any eligible article which is the growth, product, or manufacture of a beneficiary developing country if—

(A) that article is imported directly from a beneficiary developing country into the customs territory of the United States; and

(B) the sum of (i) the cost or value of the materials produced in the beneficiary developing country or any 2 or more countries which are members of the same association of countries which is treated as one country under section 502(a)(3), plus (ii) the direct costs of processing operations performed in such beneficiary developing country or such member countries is not less than 35 percent of the appraised value of such article at the time of its entry into the customs territory of the United States.

(2) The Secretary of the Treasury, after consulting with the United States Trade Representative, shall prescribe such regulations as may

be necessary to carry out this subsection, including, but not limited to, regulations providing that, in order to be eligible for duty-free treatment under this title, an article must be wholly the growth, product, or manufacture of a beneficiary developing country, or must be a new or different article of commerce which has been grown, produced, or manufactured in the beneficiary developing country; but no article or material of a beneficiary developing country shall be eligible for such treatment by virtue of having merely undergone—

(A) simple combining or packaging operations, or

(B) mere dilution with water or mere dilution with another substance that does not materially alter the characteristics of the article.

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ADDITIONAL VIEWS OF HON. BILL GRADISON

The Caribbean Basin Initiative is an important component of American policy in the Caribbean region. It holds the promise of strengthening the economies of the states of the region which is clearly in the long-term interests of Caribbean nations and the United States. However, the United States should not, through this legislation, embark on a course that is in clear violation of our international obligations or that threatens to make the administration of US domestic programs more difficult.

While the goals of H.R. 1233 are laudable and represent an effort that all members would like to support, section 111 of the bill, dealing with sugar imports from CBI beneficiary countries, is counterproductive.

Section 111 establishes a guaranteed minimum access level for sugar imports from CBI beneficiary countries that are currently allocated quotas. The current aggregate base quota for CBI beneficiaries is 371,449 metric tons out of a total global quota of approximately 1.24 million metric tons. Regardless of the global quota set in the future, the quota allocated to the CBI beneficiaries could not be reduced from the floor proposed under this bill.

Assuming the severe weather conditions of 1988 do not repeat themselves this growing season, it is expected that the domestic production of sugar, particularly in sugar beets, will continue the dramatic upward trend evident in recent years. That expansion will continue to bear no relation to market demand. The total global quota will, in that event, likely be reduced further.

Although the domestic price support program, which has helped spur much of this excess production, is not within the jurisdiction of the Committee on Ways and Means, quotas and their administration are. The sugar program, of which quota administration is an integral part, will become gradually more unmanageable and the no-net-cost provisions of that program will be put under considerable stress. The enactment of section 111 will only complicate quota administration.

In addition to its potential effects on the overall administration of the sugar program, section 111, by providing preferential treatment for CBI beneficiaries, at the direct expense of other suppliers in the event of an overall quota reduction, is a clear violation of the international obligations of the United States under the General Agreement on Tariffs and Trade (GATT). Discriminatory practices of this type are expressly forbidden by the GATT. The compensation provisions of H.R. 1233 also appear to be a direct violation of the GATT.

In September 1988, the Government of Australia challenged the US administration of the sugar quota system under the GATT. A dispute settlement panel issued a report which determined that the US sugar quota system is inconsistent with international trade

rules. The report was adopted by the GATT Council the week the Committee on Ways and Means considered H.R. 1233.

It is unfortunate that the Committee reported the legislation just prior to the adoption of the panel report by the GATT Council. Enactment of section 111 will probably bring another complaint against the United States and assuredly will complicate the efforts of the Administration to deal with the Australian complaint as well as a number of critical trade issues under discussion in the Uruguay Round.

I was pleased at the assurance of the Chairman of the Subcommittee on Trade, during the Committee's consideration of H.R. 1233, that a hearing would be held at an early date on the administration of the sugar quota program and the international obligations of the United States under the GATT. I believe this hearing will be helpful to the Congress as we consider options to bring the program into compliance with the GATT.

Nevertheless, I remain greatly concerned about the ramifications of section 111 of H.R. 1233. While I support the Caribbean Basin Initiative, I cannot support this provision.

BILL GRADISON.

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